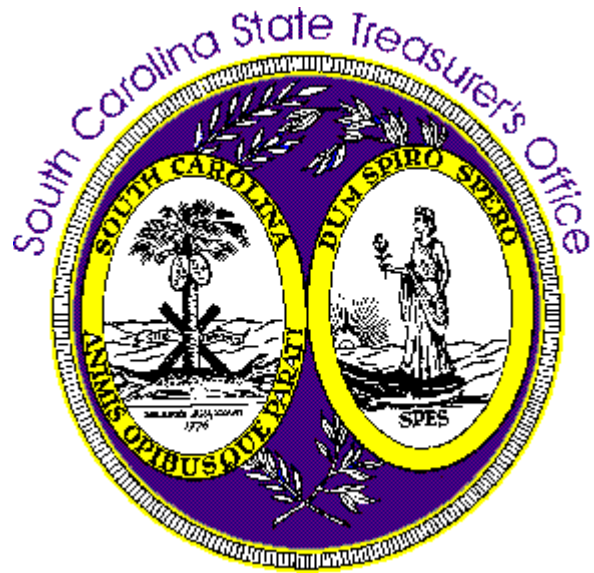


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ANNUAL ACCOUNTABILITY REPORT FOR FISCAL YEAR 2003

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ANNUAL ACCOUNTABILITY REPORT

FOR FISCAL YEAR 2003

**GRADY L. PATTERSON, JR.
STATE TREASURER**

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I. EXECUTIVE SUMMARY

I.1. MISSION AND VALUES

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 will use a vast network of resources, industry knowledge and technology to provide high quality service in the areas of: 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 provide 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 will work 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 task 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. STRATEGIC GOALS

It is a priority to maintain an adequate workforce in numbers so the STO can continue to provide the essential services required by statute and the Constitution. This is particularly true when the cyclical downturn in the economy is forcing agencies to institute budget cuts. Furthermore, the STO must continue to utilize any training offered to the STO by other agencies. The ultimate goal is to retain a well-trained and engaged workforce so that every employee is equipped to perform their job in an efficient manner. Finally, it is imperative that the State Treasurer's Office constantly determine areas which are in need of technological upgrades. As a result, the STO will be able to provide the reliable service and accountability of the State's financial resources. The agency's Debt Management and Data Processing systems are two specific examples of areas that are in need of technological advancements.

I.3. BARRIERS TO SUCCESS

Barriers from the previous two years continue. The financial stress under which the office operated for the last two years continued into the current fiscal year, all but eliminating opportunities for advances in technology and professional training for the staff. Needed technology upgrades have been postponed and resources were available for only the most critical situations.

The STO continues to have staff members who perform more than one job. The assumption of more duties continues to create a high stress factor among existing staff. As a result, the Leadership is constantly concerned with office morale and the challenges of retaining a well-trained and engaged workforce. It has become a daily chore to see that every employee is equipped to perform their job in an efficient manner and to maintain an adequate workforce so the STO can continue to provide the essential services required by statute and the Constitution.

I.4. MAJOR ACHIEVEMENTS

Major achievements for the State Treasurer's Office (STO) during FY03 were:

- ◆ Maintenance of the coveted AAA Credit Rating;
- ◆ Achieved the highest return on pension investments in a national survey of pension investors, surpassing the actuarially assumed rate of return;
- ◆ Timely closing of 36 new bond issues and 14 defeasances;
- ◆ Avoidance of a reduction in force (RIF) by realigning resources and employees. This continues to allow the STO to reassign valuable employees to other areas when a vacancy occurs; and
- ◆ Met other statutory and custodial responsibilities of the office with reduced resources.

I.5. ACCOUNTABILITY REPORT

The Accountability Report is used by all levels of the agency to improve organizational performance by focusing on the strategic goals and by measuring our effectiveness in meeting those specific program goals. The report is published on the agency's electronic Employee Resource Guide for easy access by all employees. Managers frequently refer to the Baldrige Criteria in discussing proposed changes to processes and how they can be measured, how they affect the customer, and how they affect our human resources. 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 to focus our efforts on stated priorities and to defend budget requests through use of data and analysis.

The program results on pages 19-41 demonstrate the continued trends of this office in meeting or surpassing benchmarks in timeliness, efficiency and customer focus in the delivery of services.

II. BUSINESS OVERVIEW

II.1. The State Treasurer’s Office has 70.00 FTE’s (including 17.00 from other funds). As of June 30, 2003, the office had 57 permanent employees and 3 temporary employees. Three employees work a reduced hour schedule.

II.2. The office is located on the 1st and 2nd floors of the Wade Hampton Office Building.

II.3. The expenditure/appropriation chart that follows outlines the major spending categories of the budget. In FY03 the Legislature renewed the “Flexibility” Proviso (72.69) which allowed state agencies to utilize “special revenue funds” to maintain critical programs previously funded with General Fund appropriations. The STO utilized the proviso in FY03.

Base Budget Expenditures and Appropriations

Major Budget Categories	01-02 Actual Expenditures		02-03 Actual Expenditures		03-04 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$2,583,555	\$2,121,537	\$2,716,171	\$1,967,538	\$2,861,043	\$1,520,487
Other Operating	\$3,274,092	\$2,415,518	\$1,247,921	\$2,277,797	\$1,439,540	\$465,299
Special Items	\$10,109,513	\$	\$24,401,452	\$	\$	\$
Permanent Improvements	\$	\$	\$	\$	\$	\$
Case Services	\$	\$	\$	\$	\$	\$
Distributions To Subdivisions	\$	\$	\$	\$	\$	\$
Fringe Benefits	\$736,805	\$606,655	\$742,419	\$511,873	\$763,427	\$470,277
Non-recurring	\$	\$	\$	\$	\$	\$
Total	\$16,703,965	\$5,143,710	\$29,107,963	\$4,757,208	\$5,064,010	\$2,456,063

- (2)

- (1) Includes \$2 million expenditures related to Student Loan Corporation
- Includes \$1,814,933 expenditures related to Student Loan Corporation

Other Expenditures

Sources of Funds	01-02 Actual Expenditures	02-03 Actual Expenditures
Supplemental Bills	\$219,182,110	\$380,492,121
Capital Reserve Funds	\$	\$
Bonds	\$	\$

Interim Budget Reductions

Total 01-02 Interim Budget Reduction	Total 02-03 Interim Budget Reduction
\$217,659	\$276,459

II.4. **Key customers** of the State Treasurer’s Office for each major service are:

Major Service of the State Treasurer’s Office	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

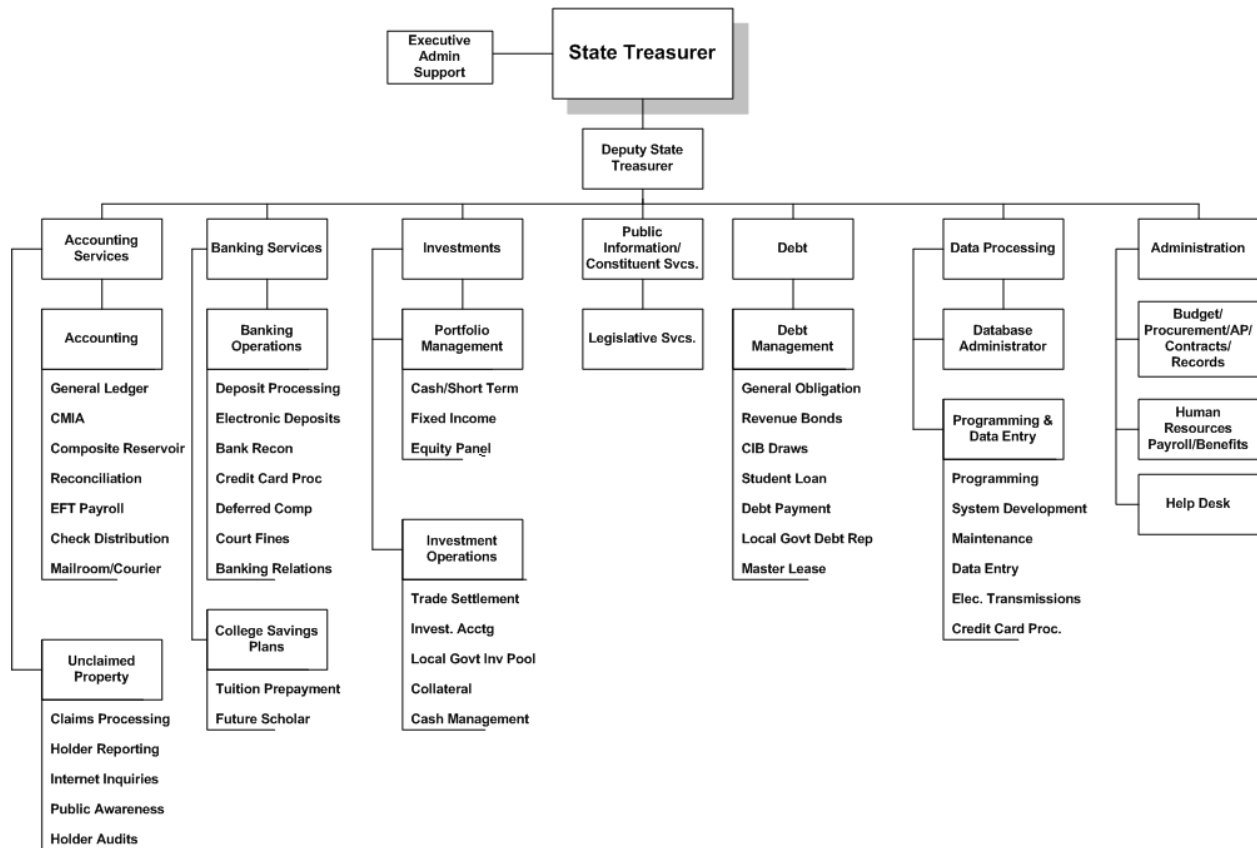
II.5. Key stakeholders other than the direct customers of our services are the citizens of South Carolina and the Legislature.

II.6. 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.7. The office is organized in 4 production/service divisions: Accounting and Unclaimed Property, Banking and the College Savings Plans, Investments, and Debt. There are 3 support divisions: Administration, Data Processing, and Legislative and Constituent Services. The Executive Division oversees the functions of all divisions.

The organizational chart that follows indicates the primary functions of each division.

State Treasurer's Office



III. MALCOLM BALDRIGE AWARD CRITERIA

III.1. LEADERSHIP

Questions 1-7 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 bi-monthly meetings with Senior Staff members.

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 these meetings 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 has a long history of staff loyalty. His positive leadership and support and recognition of his employees has generated below-average turnover in personnel. Although a stable and consistent staff in dealing with the State's finances is an attribute, the STO has had to guard against complacency through creative human resource management. As a result, the STO is constantly using staff meetings, various research, budgetary or accountability reports along with employee evaluations, related professional organizations, and interagency training to promote positive change and personal growth for the agency and its employees.

The South Carolina State Treasurer's Office has always believed that accessibility is the key to success. The STO 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 whether it is by providing access on telephone calls to a person rather than a menu driven voice mail system or by an open door policy. Furthermore, an individual who walks into the State Treasurer's Office is met with a smile and by a welcoming staff willing to help with whatever needs he/she may have.

As an elected official, the State Treasurer 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, he is vigilant in seeking information and communicating with experts to find new and better ways of meeting his responsibilities and delivering services. The State Treasurer pays particular attention daily to the State's cash flows, status of the State's debt, investment management of the SCRS fixed income portfolio and issues related to the State's AAA credit rating.

III.2. STRATEGIC PLANNING

Questions 1-5 are addressed in this section.

The State Treasurer has established the following priorities of the office:

- Support **education improvement** through School Bonds, mini-bonds, and administration of the College Savings Plans.
- Bolster **economic development** through maintenance of the State's AAA credit rating, and promotion of the State's banking and financial expertise.
- Promote **greater efficiency** in Government by streamlining processes **with an emphasis on customer service**.

Strategies for supporting education improvement:

At June 30, 2003, the State Treasurer's Office had completed the issuance of \$750 million School Facilities Bonds, providing much-needed funds to address a critical shortage of modern classrooms around the state. The bonds are general obligations of the State and are rated AAA by all three major rating agencies. These bonds 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.

Since 1994, the State has issued \$79,220,200 in mini-bonds. The proceeds have been used for State 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 which make them less attractive to purchasers and, thus, less marketable. However, the State Treasurer continues to monitor the demand for future issues.

The South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000, continues to grow. This program guarantees that the money paid today will cover a child's tuition at an in-state public school when the child is ready for college. SCTPP helps provide the opportunity for children to go to college, gives parents a peace-of-mind that college can be affordable, and fosters a sense that higher education is important to statewide economic development. The South Carolina College Investment Plan, "Future Scholar", which was implemented last year complements the prepaid plan while offering a flexible alternative, utilizing the same Section 529 federal tax benefits, as does SCTPP, for families who choose this college savings option.

Strategies for bolstering economic development:

South Carolina is one of only seven states (down from 8 last year) with a AAA credit rating from all three of the major rating firms in the nation. Maintenance of the AAA rating benefits the State through savings on borrowing and also has a positive trickle down effect to other entities in the State. School districts and other entities benefit from the State's credit worthiness in their own borrowings. In reaffirming the AAA rating, the credit agencies cited South Carolina's conservative debt management practices, relative low debt burden, and mid-year recognition and

adjustment mechanisms in the event revenues do not materialize as expected. All of these strengths are strongly influenced by the State Treasurer.

In response to the financial crisis experienced nationwide, the State Treasurer initiated several procedures to protect the assets of the Retirement Systems and to strengthen the standards for investors. The State Treasurer was instrumental in the passage of Emergency Procedures for the investments of the Retirement Systems under the management of outside investment firms. These procedures streamline the process for taking immediate action should it be necessary to safeguard the system's assets. In another initiative, the State Treasurer called for stricter standards for investors. His proposal is a major initiative in protecting state taxpayer funds and public pension funds from the risks of conflicts of interest.

Strategies for promoting greater efficiency in government:

We have identified harnessing new technology as the way to increase efficiency in a measurable and meaningful manner. Wherever constitutionally and statutorily possible, the State Treasurer's Office is attempting to create a "paperless" work environment by capitalizing on new technologies.

This Strategic Planning Objective meets several requirements identified prior to its implementation:

1. It aligns with our existing Mission Statement and meets the needs of those we serve.
2. It creates an environment of communication and innovation in which each employee can seek new ways to do required functions.
3. It gives the agency quicker response times to customer needs.
4. It saves money.
5. It frees resources for other uses.
6. It increases efficiency and provides for greater accuracy, responsiveness, and professionalism in performing required duties.

During the past fiscal year, strategic planning, resource allocation, and electronic solutions were more critical than ever in allowing the shrinking workforce to keep up with increasing demand for services. Each manager is continually challenged to eliminate nonessential functions in order to focus on the most critical. Any proposals must address the impact on the customer and how to offer them electronic alternatives to the data and services previously provided by more paper or people intense delivery methods.

The Strategic Planning Objective is consistently moved forward by a bi-monthly meeting of senior staff to analyze needs, performance, and suggestions or concerns from staff and customers. The 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.

The Strategic Planning Objective helps the State Treasurer's Office by giving basic and measurable criteria to identify success. As we move forward, our office continues to look for key areas that will help us move closer to a "paperless," more efficient agency.

III.3. CUSTOMER FOCUS

Questions 1-5 are addressed in this section.

The State Treasurer's Office relies on one-on-one information gathering 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. Requests and information garnered from these listening and learning opportunities directly affect the way we provide our services.

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

Most of our office programs are detailed on the State Treasurer's Office web site. The questions answered and information provided on the site reflect the most frequently asked questions received by the State Treasurer's Office. Our office has made it a priority to continually make links, downloadable documents, and other information available to reduce costs and response times. The web site was designed with evolution in mind. We continue to explore statutory changes to allow information that was previously transmitted through more expensive means to be posted on the web site. For example, the Local Government Debt Report for Fiscal Year 2002 was published to the website, thereby eliminating most paper copies and reducing costs of publication by more than 50%. The format of the current site is adaptable to the future needs and opportunities.

Legislative matters are handled through a dedicated staff available to provide research and serve as a resource on matters related to this office and the State as a whole. Several issues requiring significant research and support during the 2003 legislative session included: changes to court revenue collection and reporting requirements, technical changes to bond enabling acts to reduce borrowing costs and minimize potential federal tax consequences, exploiting new avenues for tax-exempt financing through public/private partnerships for school building projects, and the annual appropriation process including related debt issues.

Ongoing communication with State agencies provides feedback on how their requirements and expectations can best be fulfilled. The office regularly participates in special projects to improve statewide processes. This year, representatives of the office served on committees studying the statewide accounting system. The office makes annual presentations to the South Carolina Governmental Finance Officers Association at both their fall and spring conferences and uses those forums not only to disseminate information to others, but to receive information from these customers on how we can best serve them. Additionally this year, office staff participated in training events for clerks of court regarding changes to the Court Fine process, and served as the instructor for two cash management conferences.

III.4. INFORMATION AND ANALYSIS

III.4.1 Performance measures are incorporated in all operations of the office. The measures used are selected by management to:

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

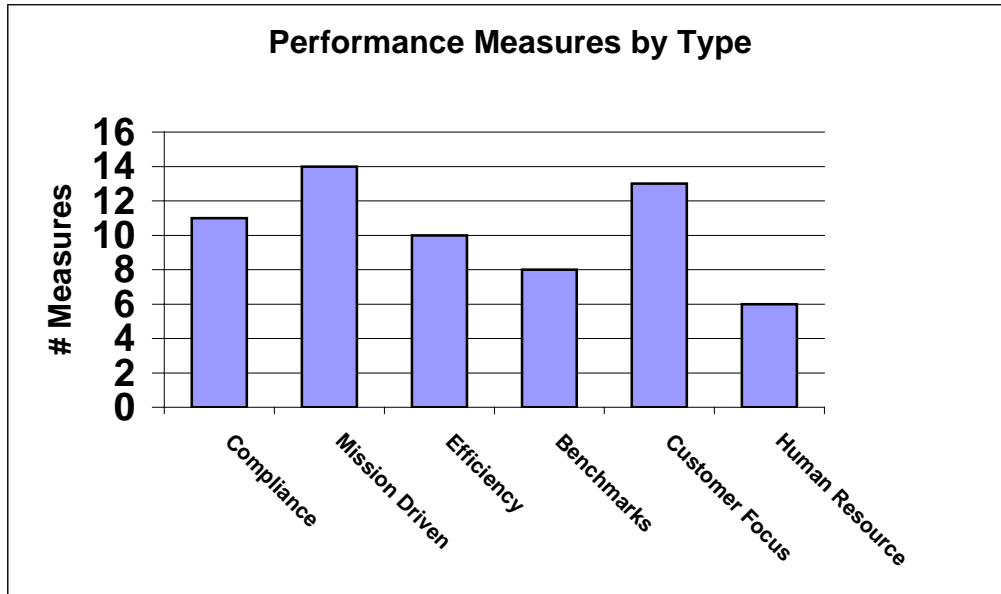
III.4.2 Accuracy of data is assured in most instances through reconciliation and confirmation with external sources:

- 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 counter-party 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.
- Internal administrative data such as budget status, procurement information, and payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Overall the agency data is subjected to annual audit directly by at least 6 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; and
Independent auditors for the South Carolina Resources Authority.

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.

III.4.3 A recent review 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 office where most functions are delegated to it by statute, with few programs at the discretion of the State Treasurer.



III.4.4 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 National Association of State Auditors, Comptrollers and Treasurers (NASACT), National Association of State Treasurers (NAST), 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.

Details can be found in Section 7: Results.

III.5 HUMAN RESOURCES

Questions 1-6 are addressed in this section.

The agency is committed to promoting a culture of high performance, learning and employee gratification in a safe environment. The Senior Management Team portrays a forward thinking leadership in an ever-changing environment and has pledged to recruit highly qualified, ethical and diverse individuals. The State Treasurer and the Senior Management are committed to serve as models of these beliefs. This culture 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 recognition. The Human Resource management focused on two important goals for this year: (1) identifying ways to use existing staff and develop programs and initiatives that would allow the agency to absorb vacancies, save money and continue to meet the overall objectives of the agency; and (2) retaining qualified employees. These efforts have been agency wide and have incorporated ideas and suggestions from every level of staff. Through the use of this input, the agency, to date, has been able to avoid imposing a Reduction in Force during extremely challenging budget constraints.

With the tenuous budget situation, the State Treasurer's emphasis on a well-trained, professional workforce and his support of external training supplemented by internal learning and models intervention that utilize current work experiences and problems to ensure growth and innovation with Senior Management has enabled our agency to continue to meet its mission and provide exceptional customer service. This was accomplished even though we experienced the loss of 3 permanent full time employees this year. With the continuation of the hiring freeze, we filled one essential position. This fiscal year has presented some very challenging situations for the agency but the continuous efforts by Senior Management and staff to ensure that cross training was a priority have enabled us to develop highly skilled and versatile employees. Such versatility allowed us to absorb vacancies and realign skilled and trained staff members to other areas in order to use our resources as efficiently and effectively as possible. In several instances, employees have crossed divisional lines, been reassigned or have absorbed additional duties in order to meet work demands.

Our work team consists of 53.0 State funded FTE's, 17.0 Other funded FTE's and 3 temporary employees. The agency has lost 11 employees during the last three fiscal years and has filled only four positions identified as being critical to the mission in that time. The exit interviews reflected departure for better financial opportunities in the private sector and for personal family-related issues. We currently operate with 12.75 FTE's vacant. We have maintained a diverse workforce and have been ranked 12th in overall goal attainment among all State agencies in reaching our affirmative action goals. This is down from 9th in the prior year. The State Treasurer's Office ranked 5th in goal attainment for like-size agencies. This is down from 3rd in the previous year.

Budget constraints also posed problems when assessing the training needs of the staff. With a very limited training budget, it became necessary for Senior Management to review the training needs of their staffs carefully in order for the agency to provide training to employees that directly affects success of their performance. The prior year, the State Treasurer's Office had partnered with a few other state agencies; however, due to budgetary reductions, those agencies

eliminated or reduced their training programs for this year. The Human Resources Manager assisted in the expansion of a State Agency Training Consortium made up of state agencies for the purpose of collectively providing facilities, resources and trainers. This Consortium was previously made up of only Cabinet Agencies but the sharing of resources has been expanded to include a number of other agencies. The Human Resources Manager volunteers her time as needed to the Committee in trade for free training opportunities for the State Treasurer's Office employees. During this past year, our agency took advantage of 9 training opportunities, one of which was a four-day supervisory training course. The cost of these trainings had we paid a registration fee would have been a minimum of \$100 each. In addition, the Budget and Control Board offered free training in Baldrige criteria for some of our staff members. This educational opportunity allowed for us to continue developing our Baldrige criteria.

In addition, the agency continues a Voluntary Furlough Program. The Voluntary Furlough Program is well received and has generated support from the agency head and all classes of employees. The State Treasurer was the first agency head to participate in the Voluntary Furlough Program statewide. His participation, along with 14 additional staff members (over 26% of full time employees), including the Deputy State Treasurer, generated over \$12,500 of savings to the agency. The savings is down from \$37,000 in the prior year. We had 3 participants in the Voluntary Separation Program in Fiscal Year 2001-02 and their participation generated approximately \$50,000 in savings in Fiscal Year 2002-03. The agency has also actively promoted flexible work schedules to more easily balance employees' work and family demands. We have expanded the flexible work schedule policy to include more options which allow the office to cover areas for longer periods of the day. We continue to offer a part-time program should employees be interested in reducing their hours. We currently have 3 participants in that program and it has been critical in helping us reduce turnover and eliminate the loss of additional skilled workers with institutional knowledge. The agency has processed one salary action since January 2000 and was able to provide our staff members a bonus for improving efficiencies this year.

Employees receive annual performance evaluations. At the beginning of each evaluation period, a planning stage document is given to each employee that outlines the duties of his/her position and identifies success criteria for the function being performed. Throughout the evaluation period, supervisors informally meet with their 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 integral in determining better and more efficient ways to operate.

In addition to feedback regarding performance, the Senior Management has also taken steps to recognize the staff informally. Senior Management provided a BBQ luncheon this year for the Employee Appreciation Day. These measures were very important in that our budget situation has limited our resources for retaining staff members. The recognition of staff for accomplishments, both formally and informally, has become an important responsibility of our Senior Management in their day-to-day activity, as we have no other resources to recognize and reward exceptional performance.

The State Treasurer's Office also actively supports community groups such as the United Way, Community Health Charities, the United Black Fund, etc. In spite of the fact that we have been unable to award our employees on their performance, our staff has been very forthcoming in contributions towards our community service efforts.

In conjunction with other agencies in the capitol complex, we have worked to provide health screenings, mammograms, blood donations, flu shots, etc. By combining our resources with those of other agencies, we have been able to offer an opportunity for free health screenings this past year and flu shots to employees at a more reduced cost than offered by Prevention Partners. In addition, we had 3 employees participate with another agency's group in a Weight Loss Program where weekly meetings were held on site. This enabled the employees to pay attention to their health during their lunch hour rather than interfere with after work responsibilities and family time. Finally, ten members of the STO staff participated in the Wellness Walk this year which was an increase in participation from the prior year.

III.6. PROCESS MANAGEMENT

III.6. Questions 1 and 2 are addressed in this section for each of the **key design and delivery processes**. Most of the processes in our 4 major production/service delivery areas are heavily automated and deadline driven.

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 dwindling resources, managers must continually look for ways to better utilize automation for processing, verifying, and reporting information.

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 to each customer.

Communication of information from state agencies to the State Treasurer's Office has traditionally been paper intensive; however, major strides have been made in the past few years to automate those processes, including implementation of the **Automated Deposits System**, **Electronic Vendor Payments**, and **Deposit Sweep** systems for Colleges and Universities. The State Treasurer's Office continues to promote these new systems and work closely with agencies to implement them as quickly as possible. 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 yield 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.

BidSC, the quarterly internet auction process for bidding on Certificate of Deposits continues to be an efficient 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. Future plans include a partnering with QED, our portfolio management system, and MuniAuction, the provider of the web based system, to offer a seamless transfer of information from the MuniAuction system to the accounting system.

The overall objectives of the investment program for Retirement Funds are provided in the Statement of Investment Objectives, recommended by the Investment Panel and the State Treasurer, and adopted by the Budget & Control Board. An Annual Investment Plan, recommended by the Investment Panel and adopted by the Budget and Control Board, sets the annual objectives for the equity investments of the Retirement Funds. 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 market conditions and investment direction. Monthly performance reports 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 DMS system adequately performs core functions for the Debt Management area; however that system was developed on an older technology platform and frequently requires technical intervention. It is also paper-intensive, which increases resource costs. Some minor reporting enhancements for debt refunding were accomplished during FY 02-03 but were still limited by the aging technology. The Debt Management area must perform an evaluation of the area's system needs and analyze those needs against the current system's continuing ability to meet them. The priority of this objective has increased in the past year due to the unusually large number of debt issues closed and the increased demand for debt service information by the Legislature. We intend to ask for funds to proceed with the feasibility study of replacing the legacy debt service system in the next budget year.

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. We are currently undergoing an internal feasibility study as to whether the record keeping for the Tuition Prepayment Plan would be cost effective if moved in-house.

III.6.3. 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.

III.6.4. Recognizing the importance of our **key supplier relationships**, the State Treasurer has built dedicated support systems for each of these type relationships. The Manager of Banking Relationships position created in 1999 is one such example. Through regular meetings with major suppliers of banking services, particularly in times of financial stress as experienced this fiscal year, 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.

By further automating information flowing into and out of the State Treasurer's Office and specifically by standardizing certain file exchanges, we were able to improve the accuracy of the data and reduce the demand on our IT staff to maintain multiple systems.

III.7. RESULTS

Program Name: **Accounting and Banking**

Program Cost:	<u>FY1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>
State Funds	\$1,495,455	\$1,550,164	\$1,011,302	\$ 779,164	\$718,183

Other Funds	\$198,050*
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*Includes \$198,050 used under Proviso 72.69 (Flexibility) to maintain critical programs previously funded with General Fund appropriations.

FTE's:	25	26	20	18.45**	17.45
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** Reflects a correction to the FTE count for this function in previous year.

Note: Program costs and FTE's in this program for FY01 and following include only those costs and employees directly involved in the delivery of these services. Previous years included the cost of some functions not currently considered Accounting and Banking services

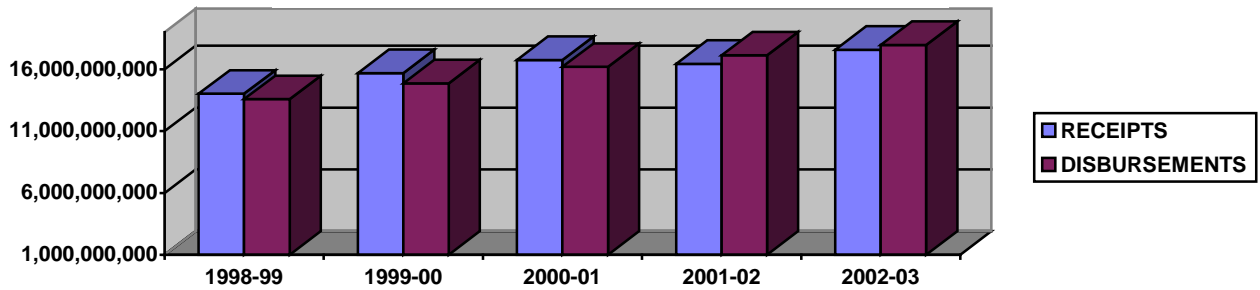
Program Goals:

- 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 banking services for all state agencies and institutions as required.
- Conduct timely reconciliations of bank accounts throughout the State, assuring accuracy of banking information and timely resolution of discrepancies.
- Distribute shared revenue according to statute.
- 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 assuring prompt posting of those funds to participant accounts.
- Analyze and provide input on budgetary and legislative matters related to statewide banking and accounting matters.

Accounting Objectives:

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.)
2. Distribute Aid to Subdivisions as required by law between 20th and 25th of each month.
3. Reconcile all imprest bank accounts of the State within 1 day after receipt of the bank information.
4. Process all payroll and vendor direct deposit authorizations by the following payday.
5. Reconcile all receipts, disbursements and transfers with the Comptroller General's Office daily as required by state law. Identify and resolve all differences.
6. Reconcile the Composite Reservoir Master Bank Accounts and distribute detail account statements to state agencies by the 15th of the month.
7. Review all proposed legislation related to banking and accounting matters, and provide feedback by the deadline to respond.
8. Process, batch and distribute all checks, IDT's and Treasurer Receipts for state agency pick up as soon as possible.

COMPARISON OF RECEIPTS AND DISBURSEMENTS



Key Results:
Accounting

- 1) Increased use of Electronic Vendor Payments and EFT payments, and expansion of the procurement card program (which reduces the number of individual disbursements required), allowed existing staff to process disbursements within the goal of 24 hours from request.

Disbursements:	FY99	%	FY00	%	FY 01	%	FY02	%	FY 03	
Paper checks processed	3,536,368	75%	3,300,086	71%	3,157,940	70%	3,048,306	70%	2,940,949	68%
Electronic pmts processed	1,169,948	25%	1,345,948	29%	1,325,434	30%	1,305,058	30%	1,401,757	32%
Total disbursements	4,706,316	100%	4,646,034	100%	4,483,374	100%	4,353,364	100%	4,342,706	100%
FTE's in processing area	4		4		4		4		4	

- 2) All shared revenues were distributed according to State Treasurer's Office policy between the 20th and 25th of the month in which distribution is required by statute.
- 3) The resignation of an employee in the check clearing accounts position created a challenge for the remaining staff which we were only able to overcome through cross-training and automation. The remaining staff maintained the daily reconciliation process at a 1 to 2 day turnaround by further automating the reconciliation. The realignment of duties necessary to accomplish this task caused the resources available for remaining tasks 4-8 below to be compromised.
- 4) All payroll and vendor direct deposit requests were processed by the following payday. As of June 30, 2003, 912 vendors had signed up for Electronic Vendor Payments.
- 5) Daily reconciliations with the Comptroller General's Office were achieved, and all differences were identified and resolved.
- 6) Composite Reservoir accounts were reconciled with detailed statements distributed to the agencies by the 15th of the month.
- 7) Multiple pieces of legislation were reviewed and analyzed during the fiscal year related to Accounting and Banking matters. Additionally, the office participated in a Budget Office survey

of the legislative authority for all earmarked and restricted accounts within the agency, requiring considerable man hours of research and documentation.

- 8) Prepared annual reports and furnished financial data to internal and external customers by prescribed deadlines through considerable overtime efforts. (GAAP Closing Packages, CMIA TSA and Annual Report, Annual Accountability Report).

Banking Objectives

1. Record all deposits within 1 business day of receipt of information from the agencies.
2. Increase the number of agencies using the electronic deposit system from 4 to 10, adding at least one of the high-volume deposit agencies.
3. Reconcile all bank accounts of the State within 30 days of receipt of the bank information and reduce unrecorded deposits at June 30 to the audit tolerance for materiality of less than \$6 million.
4. Improve reconciliation process by incorporating entire bank data transmissions as well as all FMS transactions into the “Outstanding Deposit File”.
5. Provide for the reporting and disbursement of existing and any new Court Revenues required by legislation.
6. Improve compliance with court revenue collection and reporting through redesign of reports and instructions, follow-up of delinquent reports, increased monitoring of local government audit reports and being responsive to requests for information or assistance.
7. Process all deferred compensation funds within 1 week of receipt by this office.

Key Results

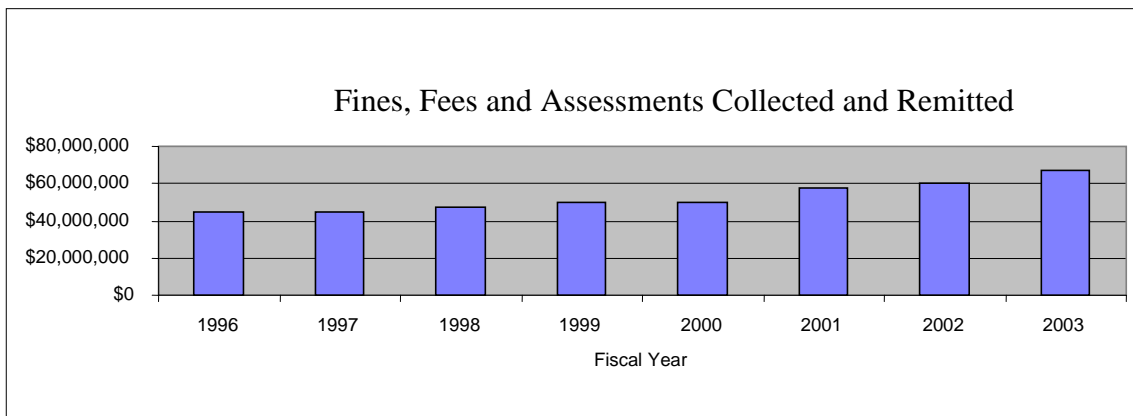
Banking

Receipts:	FY 00	%	FY 01	%	FY 02	%	FY 03	%
Manual deposits	139,692	75%	143,045	76%	127,466	77%	78,701	48%
Automated deposits							45,224	28%
Credit card deposits	37,476	20%	28,146	15%	26,252	16%	30,564	19%
ACH deposits	8,226	5%	16,288	9%	11,439	7%	8,651	5%
Total Deposits	185,394	100%	187,419	100%	165,157	100%	163,140	100%
FTE's in processing area	4		4		4		4	
# of Institutions on Deposit Sweep			9		11		13	

1. FY03 saw the greatest increase, to date, of agencies submitting automated deposits (see 2 below). As of FY03, automated deposits are now listed separately from manual deposits. Automated deposits include deposits processed by Deposit Sweep. Due to the automation of deposits, the number of manually processed deposits has been significantly reduced, greatly reducing data entry and data entry errors.
2. Three high-volume agencies (DHEC, DPS, and Mental Health) were added to the Automated Deposit System during 2003, greatly increasing the number of automated deposits processed. Through participation in the South Carolina Enterprise Information System (SCEIS)

Statewide Oversight Committee, the STO is working to make automated deposits a feature of the new accounting system, thus eliminating the need for individual agency customization.

3. Reconciliation time for all depository accounts remains at 30 days. Unrecorded revenue was also reduced to under \$1 million, well below the audit tolerance level, making funds available for program purposes on a more timely basis.
4. Work was completed during FY03 to incorporate the entire bank data transmission as well as all FMS transactions into the "Outstanding Deposit File". These enhanced reconciliation processes have improved the identification of bank errors and adjustments, and helped in identifying unrecorded revenues.



5. A number of new court revenue requirements were passed by the General Assembly during the fiscal year. The temporary provisions that increased the assessment rate for all courts last fiscal year were extended for the new fiscal year. All systems were amended to accommodate the new provisions prior to July 1.
6. Compliance efforts continued in FY03. New forms and instructions concerning the changes were mailed to all County and Municipal Treasurers prior to the implementation date, and staff participated in training events designed to help preparers understand the new requirements and forms. Additionally, for the first time, court revenue remittance forms and instructions have been made available on the agency's internet site and the State Treasurer's Office is currently developing a training video to be made available to local governments and other interested parties through its web site. In spite of such efforts, 187 local government audit reports were submitted to the STO as compared to 198 the previous year and delinquent remittance reports increased to 9 compared to 7 at the previous year end. The Legislature enacted legislation in FY03 directing the State Treasurer to report non-compliant local governments to the State Auditor.

SC DEFERRED COMPENSATION FUNDS RECEIVED AND TRANSMITTED						
Calendar Year	1997	1998	1999	2000	2001	2002
Contributions Transmitted	\$89,601,287	\$99,817,347	\$111,031,533	\$136,202,466	\$165,655,595	\$158,289,435
Reporting Entities	531	547	562	572	585	594

- The slight decrease in the volume of deferred compensation deposits processed in 2003 was due to a change in the third party administrator for the fund. Except for the final two weeks of the calendar year, funds were wired within one week of receipt as required. Due to the transition of administrators, funds received in the final two weeks of 2002 were wired in January, 2003.

The State Treasurer has agreed to a pilot study whereby certain agencies capable of transmitting both the detail information and the funds electronically to the administrator may do so directly. The Deferred Compensation Commission will study the timing and accuracy of the posting of those direct contributions by the new third-party administrator. If successful, this should free the State Treasurer to handle the receipt and transmission of deferred compensation funds for only those agencies not set up to transmit electronically.

Program Name: Investments

Program Cost:	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
State Funds	\$565,229	\$538,651	\$614,106	\$491,166	\$517,943
LGIP					\$114,683**
FTE's:	10	9	9.6	8*	8

*One position was transferred to the Banking Operations area, and an administrative position was not filled due to the hiring freeze. The position previously charged at 60% to this program was increased to 100% during the fiscal year.

** The costs of operating the Local Government Investment Pool (LGIP) were not previously reported, but the staff was included in the FTE count.

Goals:

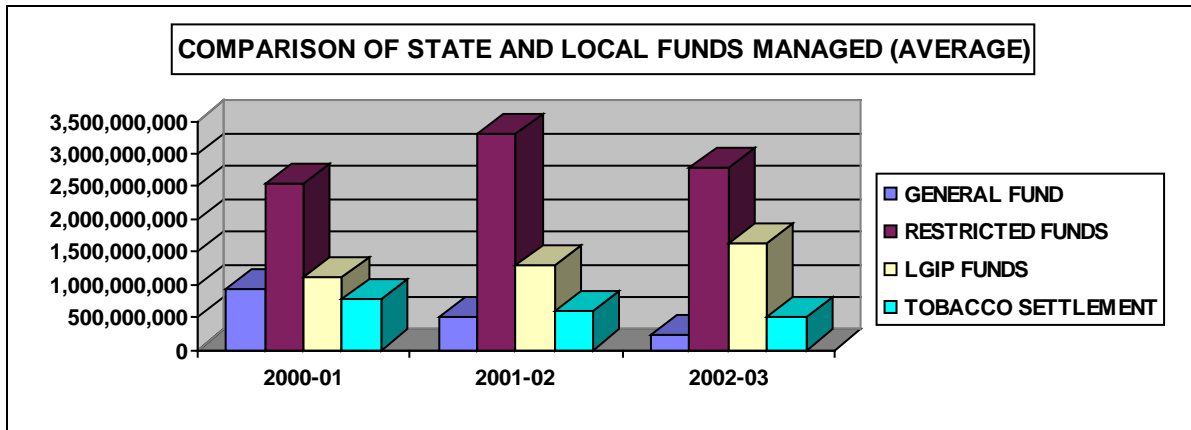
- Programs are managed in accordance with the South Carolina Code of Laws, 1976, as amended, Section 11-9-660, among other laws.
- To invest all State funds pursuant to statutory authority, including the fixed income component of the South Carolina Retirement Systems portfolios, which are structured to meet the long-term nature of pension obligations.

Objectives:

- Provide professional investment services for all funds under management through efficient utilization of available resources.
- Obtain the best return within prescribed parameters on a portfolio basis, meeting or exceeding the applicable benchmarks, while preserving capital.
- Maintain adequate liquidity for cash needs.
- Manage cash flow to optimize earnings for the State.
- Meet or exceed the budgetary earnings projection for the year.
- Maintain adequate collateral to secure State funds deposited in financial institutions.

Results:

Cost of Investment Program:	Cost of Investment Management Services		
	FY2001	FY2002	FY2003
General Funds	\$614,106	\$491,166	\$517,943
SCRS for Fixed Income	\$671,678	\$680,478	\$609,232
Total Cost Funds Managed (excluding LGIP & Equities)	\$1,285,784	\$1,171,644	\$1,127,175
Cost as % of Funds Managed	\$20,602,386,899	\$19,783,116,905	\$18,232,499,625
	.0062%	.0059%	.0062%



	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>	<u>FY 2002-2003</u>
<u>Workload - State and Local</u>			
General Funds Managed (Average)	\$934,857,001	\$498,675,199	\$233,027,538
Restricted Funds Managed (Average)	\$2,543,585,745	\$3,314,800,967	\$2,793,601,599
<u>Tobacco Funds Managed</u>	<u>\$785,750,514</u>	<u>\$596,926,115</u>	<u>\$513,435,784</u>
Total State Funds Managed	\$4,264,193,260	\$4,410,402,281	\$3,540,064,921
LGIP Funds Managed (Averaged)	\$1,098,217,232	\$1,279,275,348	\$1,627,815,228
# State and Local Portfolios Managed	22*	22	22
Total # of Investment Trades	2,442	2,857	2,897

* 3 portfolios were added in FY01 for the Tobacco Settlement Funds

Although the funds were adequately managed during the period, several areas for improvement, such as conversion of the LGIP and General Funds portfolios to the QED system were regrettably postponed due to lack of resources. The inability to fill the two positions vacated in the last 3 years has put a strain on existing staff in keeping up with daily tasks such as reconciliation, filing, planning and training. Remaining staff is performing the essential tasks through considerable overtime.

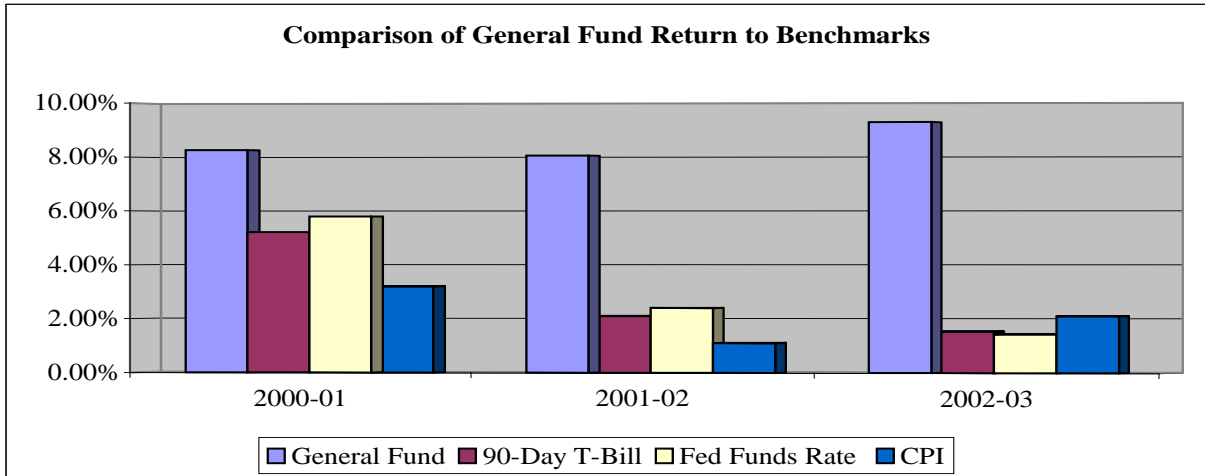
General and Local Funds Performance

- Earnings on General Fund investments were \$21,635,201 which surpassed the investment earnings projection of \$21.2 million by over \$435,201. Interest earned on General and Earmarked accounts is credited to the General Fund for the support of General Appropriations.

Return on General Fund Investments vs. Benchmarks

- General Fund investment performance exceeded benchmarks

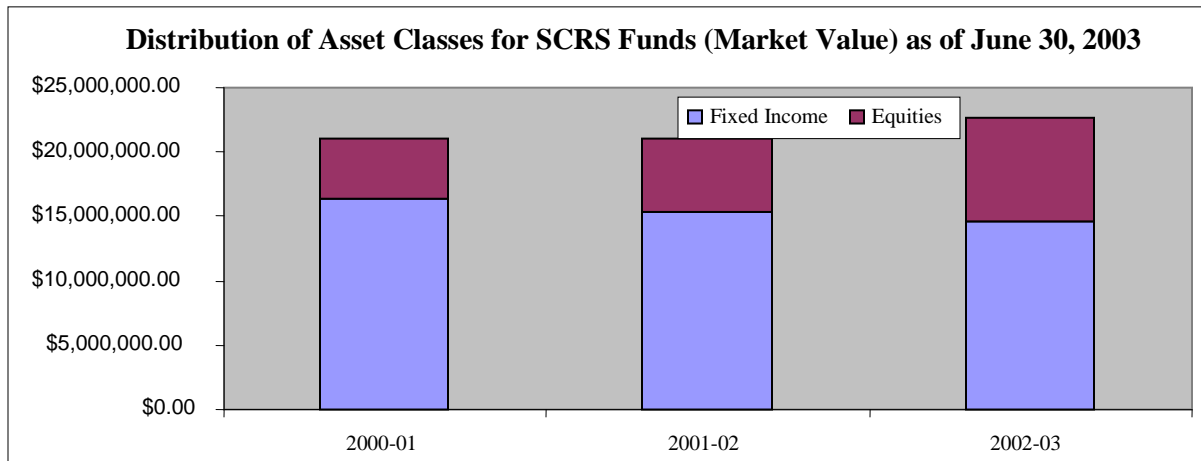
	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>	<u>FY 2002-2003</u>
Rate of Return (Cash-Basis)	8.26%	8.05%	9.28%
<u>Benchmarks:</u>			
90-Day T-Bill Rate (12 month average)	5.21%	2.10%	1.31%
Fed Funds Rate (12 month average)	5.79%	2.40%	1.43%
Consumer Price Index	3.20%	1.10%	2.10%



- BidSC program continues to be a great success. The quarterly CD auctions resulted in increased earnings for the State of over \$201,000 during this fiscal year.
- The State’s Local Government Investment Pool (LGIP) earned a rate of 1.68% as compared to the average benchmark investment rate of 1.31% (90-day Treasury Bill Rate).
- All portfolios maintained adequate liquidity to immediately meet cash flow needs.
- All deposits were properly collateralized.

Retirement Funds

SCRS Funds at June 30th	<u>FY 2000-2001</u>	<u>FY 2001-2002</u>	<u>FY 2002-2003</u>
Fixed Income Managed Internally	\$16,338,193,639	\$15,372,714,624	\$14,692,434,704
Equities Managed Externally	4,658,496,312	5,697,324,309	8,018,792,700
SCRS Total Funds	\$20,996,689,951	\$21,070,038,933	\$22,711,227,404
# Retirement Portfolios Managed (Fixed)	4	4	4
External Equity Managers	14	15	14

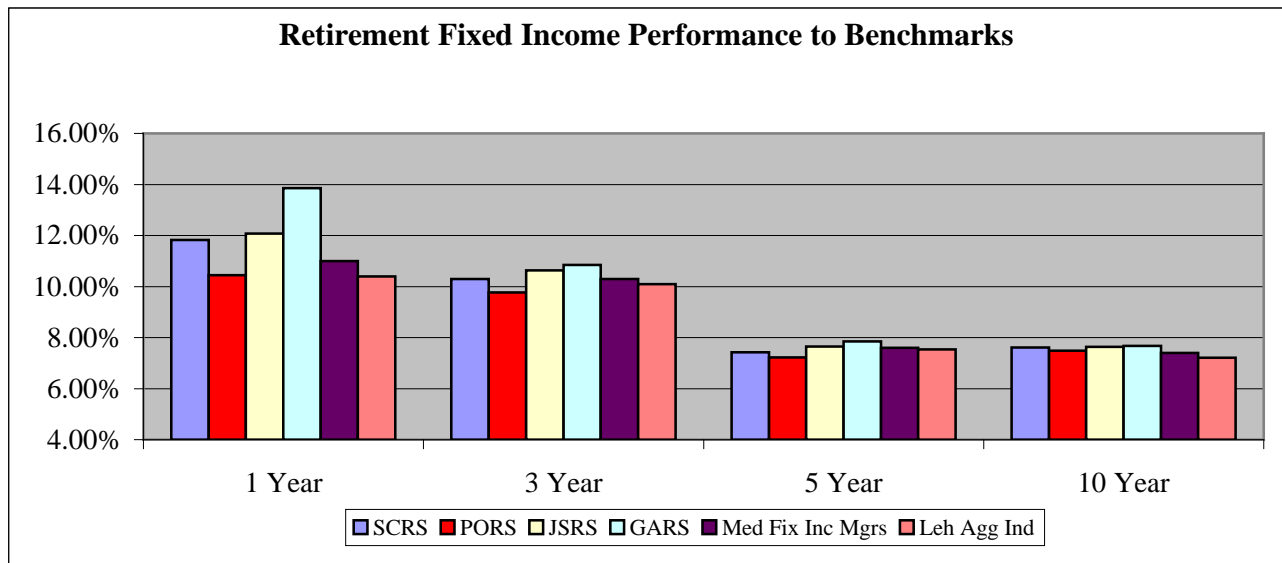


Retirement Aggregate Investment Performance

SCRS Aggregate returns for the fiscal year were 8.89% and for the three year period were 5.60%. As a result of the successful investment performance of the SCRS portfolio, South Carolina earned the recognition of being listed as Number One for the second year in a row in *Pensions & Investments* annual survey of major public funds.

Retirement Fixed Income Investment Performance

SCRS Fixed Income returns greatly exceeded the benchmark, the Lehman Brothers Aggregate Index, for the one year period ending June 30, 2003, and for the three and ten year periods. Performance for PORS has lagged the other funds, as it has carried slightly higher amounts of cash to fund distributions. The five year returns show under-performance to the benchmarks primarily due to the requirement of holding excess cash and equivalents to fund the equity program. Returns adjusted for this excess cash exceeded all benchmarks.



Return on Retirement Fixed Income Investments vs. Benchmarks

	1 Year ¹	3 Year ¹	5 Year ¹	10 Year ²
Total Rate of Return				
SCRS	11.82%	10.30%	7.42%	7.61%
PORS	10.45%	9.77%	7.22%	7.48%
JSRS	12.07%	10.63%	7.65%	7.64%
GARS	13.85%	10.85%	7.85%	7.68%
<u>Benchmarks:</u>				
Median Fixed Income Managers ³	11.00%	10.30%	7.60%	7.40%
Lehman Aggregate Index ³	10.40%	10.09%	7.54%	7.21%

¹ Source: Bank of New York

² Source: Jamison Eaton & Wood

³ Source: William M. Mercer Investment Consulting, Inc.

Retirement Equity Investment Performance

The Equity Program of the Retirement Systems is administered in accordance with the Annual Investment Plan recommended by the Equity Investment Panel and approved by the Budget & Control Board.

Return on Retirement Equity Investments vs. Benchmarks¹

Passive	Return	Benchmark	
State Street (S&P 500)	0.24%	0.23%	S & P 500
State Street (Russell 2000)	-2.28%	-1.64%	Russell 2000
Active- Large Cap			
Core			
Wellington J P Morgan ²	4.32%	0.23%	S & P 500
Value			
Flippin	2.47%	-1.03%	Russell 1000 Value
ICAP	-5.39%	-1.03%	Russell 1000 Value
Bernstein	-0.85%	0.23%	S & P 500
Growth			
Montag/Caldwell	-1.35%	2.93%	Russell 1000 Growth
Alliance Capital Peachtree ²	-5.58%	2.93%	Russell 1000 Growth
Active-Smaller Cap			
Core			
Fidelity	-3.44%	-1.64%	Russell 2000
Value			
Kaplan	1.21%	-3.80%	Russell 2000 Value
Boston Co.	14.70%	-0.61%	Russell 2500 Value
Growth			
Suffolk MFS ²	-6.37%	0.67%	Russell 2000 Growth

¹Return numbers for managers and benchmarks are from Bank of New York

²MFS, Peachtree and JP Morgan were terminated in FY02-03. The assets were then transferred to the State Street Russell 2000 fund, Alliance and Montag and to the S&P 500 fund, respectively. Performance numbers have been excluded on Benson and TimesSquare, managers hired for less than a full year.

Securities Lending Utilization compared to Benchmark

As of 6/30/03

Source: Bank of New York

Asset Class	RMA ¹ Utilization	BNY ² Utilization	RMA Spread	BNY Spread
US Govt.	67%	97%	20 bp	26 bp
US Agency	31%	80%	19 bp	28 bp
Equity/ADR	7%	31%	42 bp	28 bp
Corporates	9.5%	7%*	29.5 bp	36 bp

¹ Risk Management Association Securities Lending Committee

² Bank of New York

* Corporate Assets include large amounts of non-lendable securities. Adjusted utilization is 5-8%.

Program Name: Debt Management

Program Cost:	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
State Funds	\$217,530	\$236,834	\$279,659	\$353,666	\$372,766
FTE's:	4	4	4.15	5	5
Temporary Employees				.4	.4

Program Goals:

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

Program Objectives:

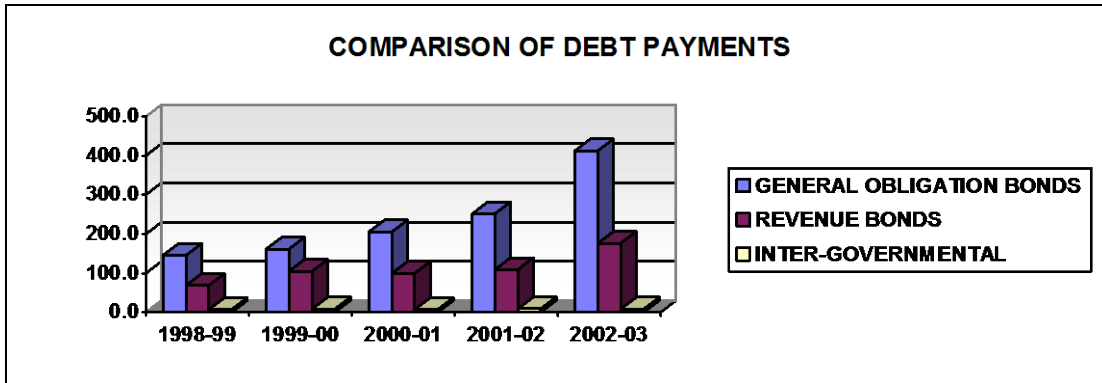
1. Make debt service payments accurately and on time.
2. Analyze the markets and structure the debt to assure the lowest rate of interest is paid.
3. Close all debt issues by the required deadline.
4. Process all Capital Improvement Project draws as requested by the agencies.
5. Process all South Carolina Housing Finance and Development Authority and Education Assistance Authority transactions as requested by the agencies
6. Assure outstanding debt does not exceed the State’s constitutional debt limit.
7. Provide state institutions and agencies with guidance in effectively managing their debt issuances and programs.
8. Provide information to the credit agencies on a timely basis.

Key Results:

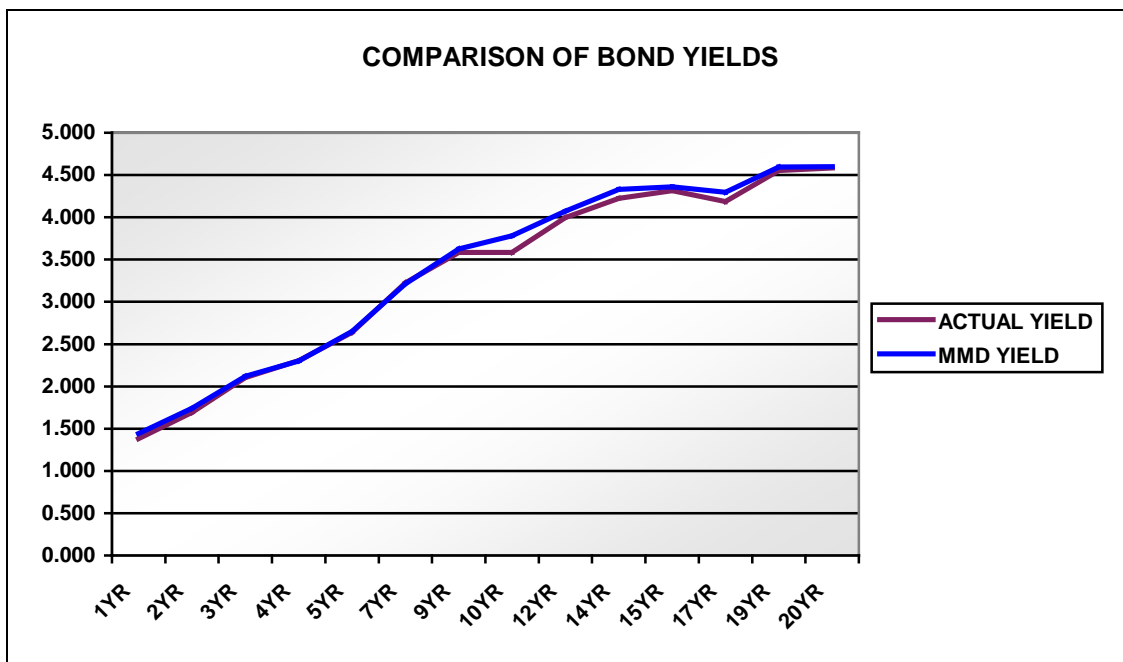
1. All debt payments were promptly made and compliance with Federal arbitrage requirements was certified.

<u>Workload (millions):</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
General Obligation	\$145.7	\$161.2	\$205.5	\$250.9	\$412.6
Capital Improvement ¹	124.8	128.8	145.3	136.6	216.5
Revenue	68.9	104.4	99.8	108.9	175.7
Inter-Governmental	7.6	8.2	7.3	8.7	7.9

¹ Also included in General Obligation



- On a composite basis, all general obligation debt was issued at yields favorable overall to Municipal Market Data (MMD) yields. For the fiscal year, the overall yield on general obligation debt issued was 3.793%, as compared to the MMD yield for the same period at 3.866%.

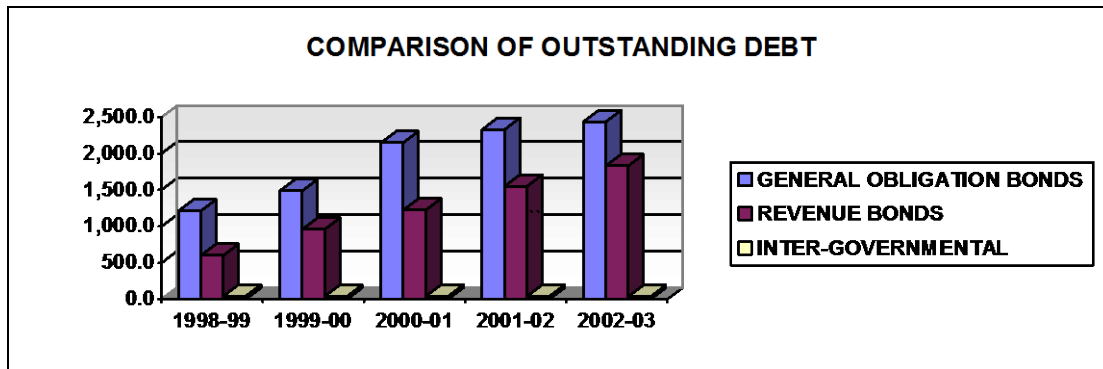


- All new bond issues were closed as scheduled; however, recent complex transactions, particularly the tobacco securitization and the large number of refunding transactions have stretched our resources to a level that increases transaction risks and creates a potential for oversight and financial error.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY2002-03</u>
New General Oblig.	2	4	7	7	20
New Revenue	6	6	13	7	13
New Inter-Government	3	2	1	0	2
Total Issues Closed ²	11	12	21	13	35
Bond Issues Defeased	2	0	0	1	14

4. Comparison of Outstanding Debt.

<u>Workload (millions):</u>	<u>FY 1998-99³</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
General Obligation	\$1,214.6	\$1,487.4	\$2,146.7	\$2,328.6	\$2,433.3
Revenue	604.9	959.9	1,224.7	1,548.6	1,829.3
Inter-Governmental	45.1	41.9	40.7	40.9	37.8
Total Issues Managed	149	125	120	117	152



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

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY-2002-03</u>
Capital Improvement Bond Draws and Refunds	2,814	2,381	5,734	3,727	2,660
Amount of Capital Improvement Draws and Refunds (millions)	\$304.0	\$526.2	\$1,083.9	\$696.2	\$781.7

² In addition, the STO serves as advisor on some issues for which the office does not serve as Trustee. Those issues represent additional workload not reflected in this schedule.

³ FY99 included some issues on the Debt Management System for which the Treasurer does not serve as Trustee. Subsequent years exclude such issues.

6. 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.

<u>Workload:</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
Number of Housing Authority and Education Assistance Authority Daily Transactions	1,244	1,549	2,527	2,407	1,640

7. 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.
8. The State Treasurer maintains frequent contact with the rating agencies and responds to all requests for information on a timely basis.

Program Name: Unclaimed Property Program

Program Cost:	<u>FY 1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>
Other Funds	\$734,146	\$707,704	\$988,136*	\$881,361

* Includes \$275,473 used under Proviso 72.76 (Flexibility) to maintain critical programs previously funded with General Fund appropriations.

FTE's:	7	7	6 FT/ 2PT	6 FT/ 2PT
Temporary Employees	4	4	1	1

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.

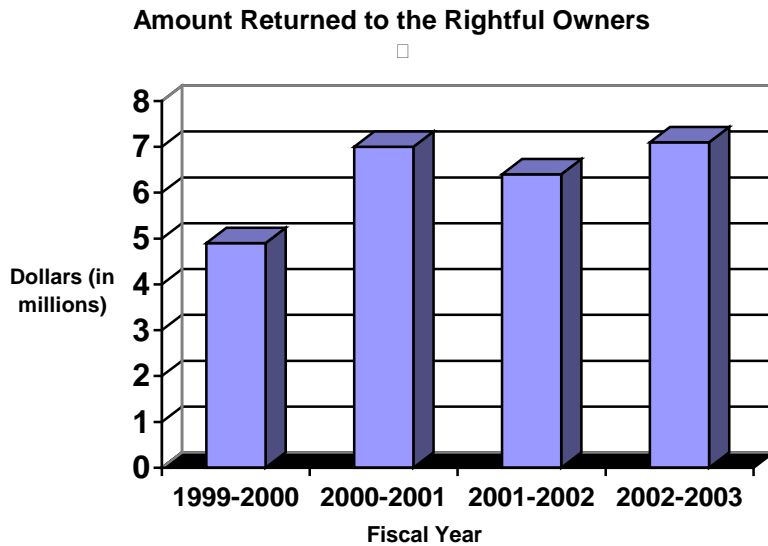
Program Objectives:

- 1) Increase public awareness of the program utilizing the most efficient methods.
- 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.
- 3) Increase the return of property to the rightful owners through aggressive outreach programs.
- 4) Decrease the turnaround time necessary to pay a claim through increased use of technology.
- 5) (a) Increase compliance with the Unclaimed Property Act by increasing the number of holders filing an annual report and (b) 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 receipt of the property and making it available for claims.
- 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.

Key Results:

1. Increased the probability of money being claimed by rightful owners through:
 - a) Providing requested information for weekly television coverage to stations in Beaufort, Charleston, Spartanburg and Columbia;
 - b) Collaborating with the Rock Hill Herald and the Anderson Independent to run listings of unclaimed property owners in each newspaper on a weekly basis; and
 - c) Continued production of weekly "Big Money Mondays" on WLTX TV in Columbia, which joined owners with their funds and increased public awareness of the Program.
2. Promoted use of Internet services (i.e., database search for property, printing of claim forms, holder electronic reporting) through television and newspaper as outlined in Number 1 above. In FY03, 13,827 potential owners inquired about property accounts via the Internet. Of those who made inquiries, 5,329 printed claim forms on the Internet. Use of the Internet by potential owners reduces the number of incoming telephone and mail inquiries. Providing claimants the ability to print their own claim forms eliminates the time and cost of printing and mailing the claim forms.

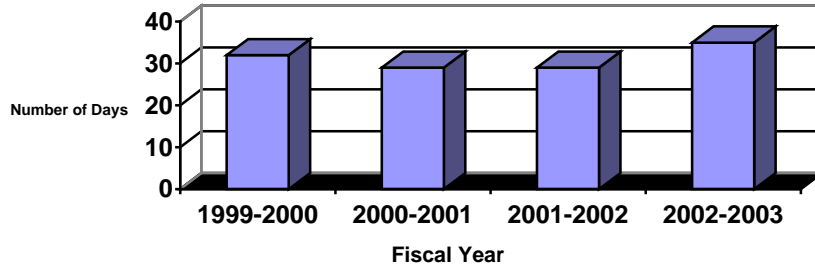
3. Continued to place special emphasis on finding owners of the larger sums (over \$1,000) of unclaimed property. Of the \$7.1 million paid in claims in FY03, \$1.3 million was paid as a result of these targeted research efforts to locate owners of the largest amounts. These efforts were facilitated by the use of a subscription Internet service which provides current address and telephone number information.



The amount of claims paid will fluctuate from year to year contingent upon: 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; and/or an unusually high one-time holder remittance (which results in unusually high claims in the period immediately following the remittance).

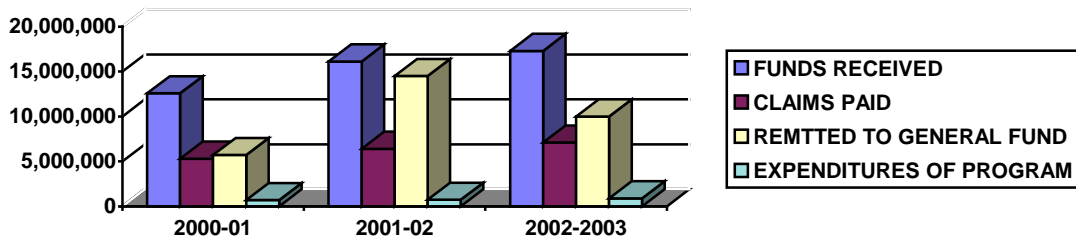
4. The average number of days to pay a claim increased to 33 days because of the substantial influx in the number of claims processed over the last fiscal year. 31,832 claims were generated in FY03 compared to 22,792 claims generated in FY02, an increase of 39%. No additional staff was added to handle the increased workload. However, two new procedures were instituted that boosted the efficiency of the claims process: 1) Whenever possible, a subscription Internet service, Accurint, was utilized to verify ownership in lieu of generating and mailing a request for additional information to the claimant. 2) A program was written that allows for the automatic upload of the claims requests made via the Internet thus eliminating the need to manually generate claims and update the claims history file for each claim requested or printed.

Average Length of Time to Pay a Claim



- Compared to FY02 in which 2,647 holders filed reports, 3,147 holders reported in FY03. Increased the number of holders filing reports electronically from 849 in FY02 to 1,413 in FY03. Forty-five percent of holders reporting in FY03 reported electronically compared to 32% in the previous fiscal year. This further reduced the percentage of reports that had to be manually keyed.

3 YEAR COMPARISON OF SOURCES AND USES OF FUNDS



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 the fiscal year the STO was able to make a non-recurring transfer to the General Fund of \$3,400,000 (in addition to the regular recurring transfer of \$6,600,000) without jeopardizing the amount available to pay claims.

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

Program Cost:	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
Other Funds	\$375,368	\$415,383	\$405,067	\$516,877
FTE's:	3	2	2.3	2.3

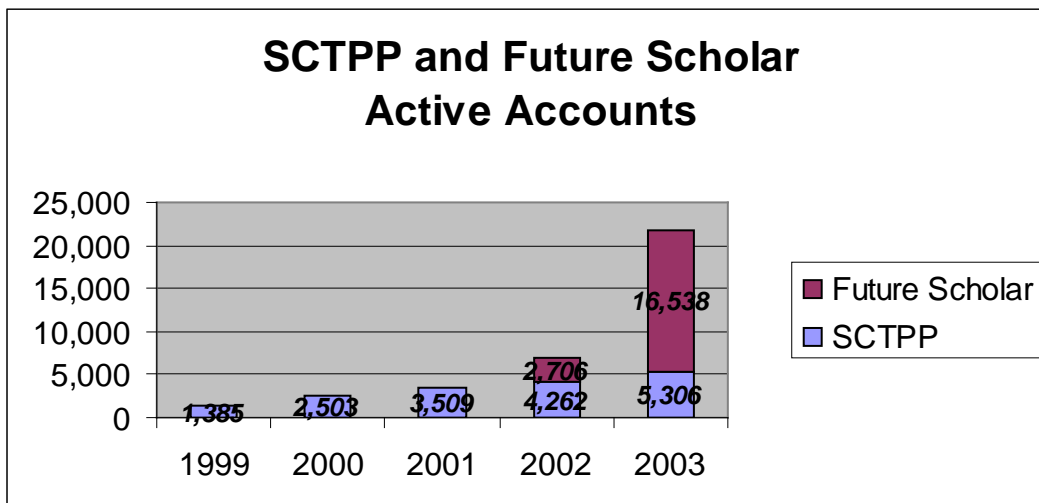
Program Goals: Expand public awareness of the programs.
Efficiently process account applications.
Efficiently manage account collections until matriculation.
Efficiently process matriculation and refund payments.
Monitor the actuarial soundness of the SCTPP Fund.

Program Objectives:

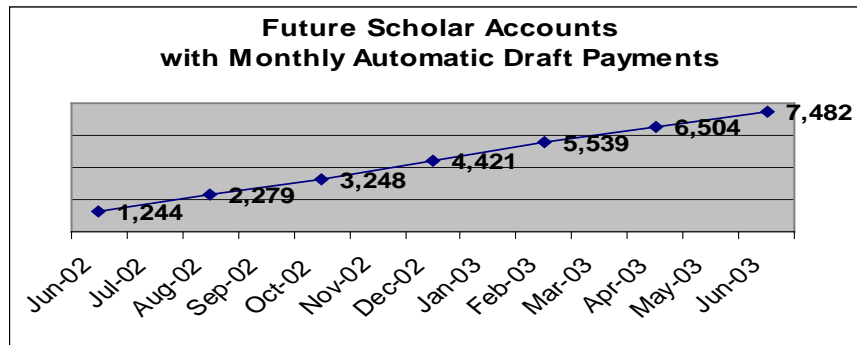
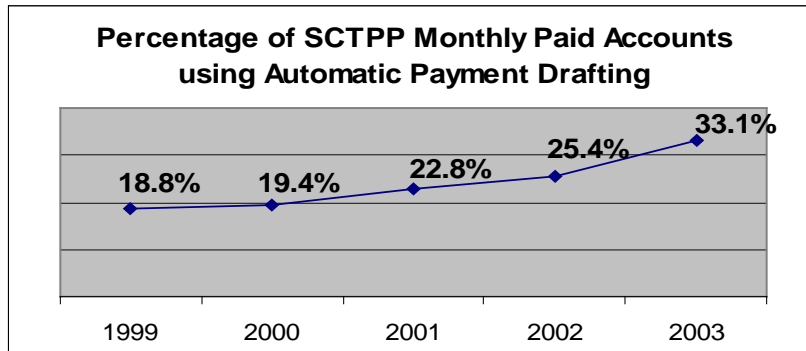
- 1) Increase public awareness of the programs utilizing the most efficient methods.
- 2) Expand services available through the Internet thus making it easier for the public to submit applications and make account changes.
- 3) Increase participation in automatic draft payment options.
- 4) Steadily increase number of accounts to maintain stability with focus on serving South Carolina residents.
- 5) Increase program flexibility and options for families interested in college savings.
- 6) Analyze the cash flow expectations for the SCTPP and review actuarial assumptions to sustain program soundness.

Key Results:

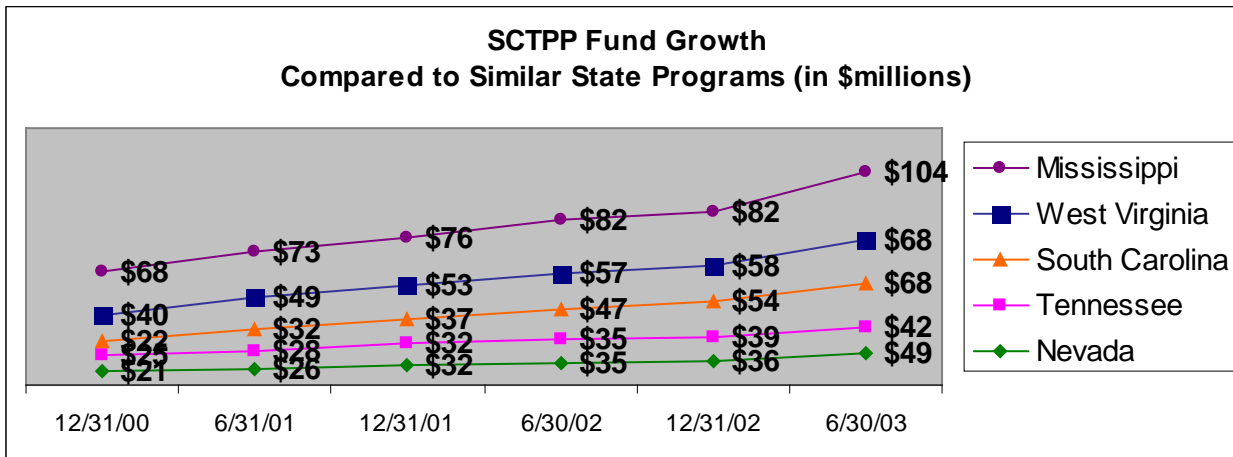
- 1) Increased participation in SCTPP and Future Scholar:
 - a) An additional 1,148 families joined SCTPP during the 2002 annual enrollment period (October 1, 2002 – January 31, 2003). After cancellations, the program had a net growth of 1044 accounts for the year.
 - b) Future Scholar grew by 13,832 accounts during the year.



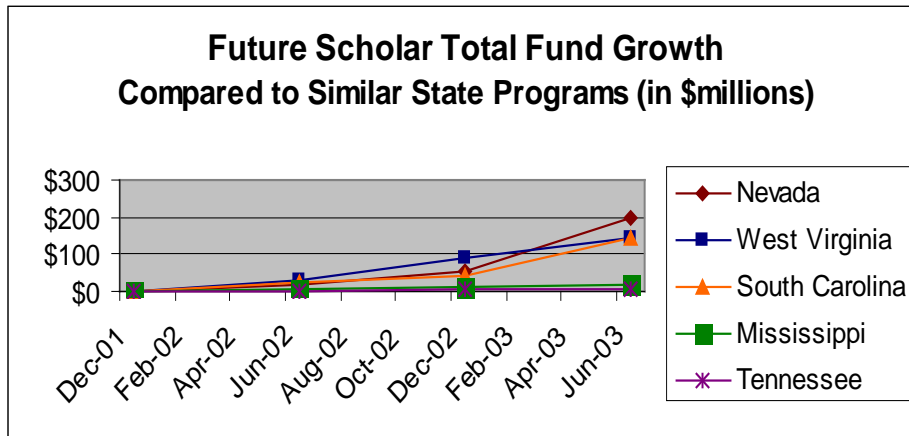
- 2) Expanded the Future Scholar website to include a Learning Center with an interactive tutorial on understanding 529, a college cost calculator, a college tuition finder, and a comparison chart of various college savings vehicles.
- 3) Increased number of SCTPP contract holders that make monthly payments through automatic bank draft, reducing bank service charges to the program, and promoted the automatic draft option to Future Scholar account holders to encourage continued savings.



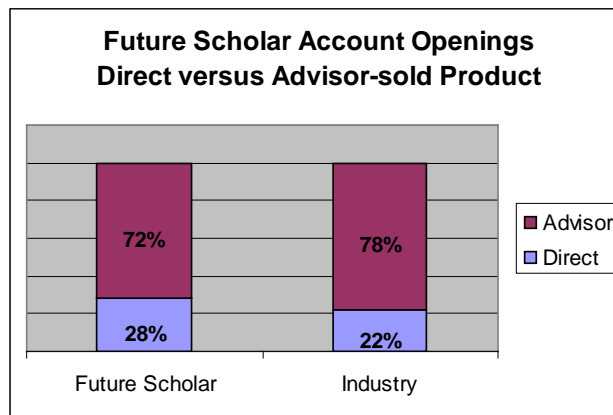
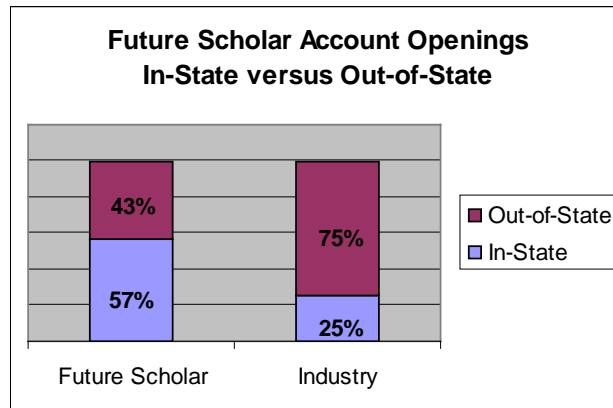
- 4) Realized Fund gains in both programs:
 - a) Experienced steady growth in SCTPP Fund due to continued monthly contributions, lump-sum payments on new contracts, and investment earnings.



- b) Established growth patterns for Future Scholar competitive with those of similar programs in other states. The states were selected for comparison based on like program features, population size of the state, and length of time the state's program has been in existence.



- c) Maintained participation in Future Scholar by State residents and through the direct, no-load program at a greater rate than the industry average.



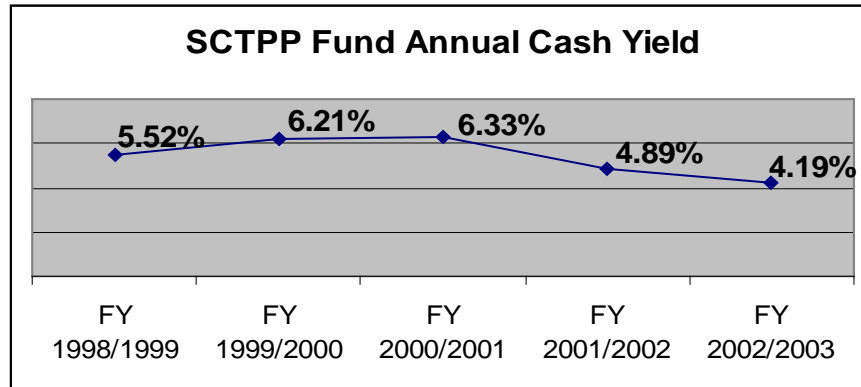
5. Increased the investment options available through Future Scholar.

<u>Direct Investment Option Portfolios:</u>	<u>Financial Advisor Options:</u>	
Age-based Automatic Allocation	Age-based Automatic Allocation	Strategic Growth
Aggressive Growth	Aggressive Growth	Focused Equities
Growth	Growth	MidCap Growth
Balanced Growth	Balanced Growth	SmallCap Value**
Balanced	Balanced	Small Company
Income and Growth	Income and Growth	International Equity*
Income	Income	International Opportunities*
LargeCap Index	Convertible Securities**	Government Securities**
MidCap Index	Value	Bond
Stable Capital	MidCap Value**	High Yield Bond
	Growth Equities**	Stable Capital

*On February 18, 2003, the International Value Portfolio option was closed to new investments and the International Equity and the International Opportunities Portfolios were added as investment options.

**On March 1, 2003, these portfolios were added as Future Scholar investment options.

6. Maintained positive investment returns for the SCTPP Fund.



Despite losses in many tuition prepayment programs nationwide, as shown in the following chart, South Carolina continued to maintain a positive investment return, primarily due to the asset mix of 88% fixed income securities and 12% equities. The STO is moving cautiously toward an asset allocation of 60% fixed and 40% equities, which we feel is appropriate for the nature of the funds.

The State Treasurer's Office has worked closely with SCTPP's independent actuary to assure that actuarial assumptions used in pricing new contracts are appropriate. Since coming under management by the STO, short term rates of return assumptions have been lowered and tuition inflation assumptions have been increased for the short term, which accounts for the recent abnormal increases in tuition primarily due to State appropriation cuts and programmatic changes at the State's largest institutions.

To date, the actuary has indicated that in his opinion the actuarial deficit can be overcome, given current investment strategies, once markets return to more stable conditions and tuition increases

return to more historical patterns. The STO continues to monitor these assumptions, meets with the SCTPP actuary as necessary, reviews the actuarial surplus/deficit of the program fund on a quarterly basis, and re-evaluates the actuarial assumptions on an annual basis.

All State Tuition Prepayment Programs for FY 2001/2002			
State	Assets	Rate of Return	Funded Status
FLORIDA	\$3,415,081,417	7.90%	110%
SOUTH CAROLINA	\$49,849,371	4.90%	86%
TENNESSEE	\$35,780,401	2.00%	N/A
MICHIGAN	\$918,376,000	1.38%	95%
COLORADA	\$100,000,000	-1.10%	100%*
VIRGINIA	\$458,900,000	-1.40%	93%
PENNSYLVANIA	\$371,000,000	-2.14%	94%
OHIO	\$620,731,454	-2.70%	90%
WEST VIRGINIA	\$54,011,408	-2.70%	83%
WASHINGTON	\$150,000,000	-3.00%	90%
TEXAS	\$799,318,574	-3.30%	90%
ILLINOIS	\$214,834,698	-3.50%	81%
NEVADA	\$35,567,971	-3.80%	93%
KENTUCKY	\$22,154,504	-6.82%	95%
MARYLAND	\$108,713,854	-7.80%	89%
MISSISSIPPI	\$73,693,596	-9.00%	76%
ALABAMA	\$476,515,560	-10.12%	90%
ALASKA	\$423,333,344	(not reported)	100%

*Legislatively mandated cash infusion to maintain 100% funded status.

Glossary of Acronyms Used

CMIA TSA	Cash Management Improvement Act - Treasury State Agreement
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
NASACT	National Association of State Auditors, Controllers, and Treasurers
NAST	National Association of State Treasurers
PORS	Police Officers Retirement System
RIF	Reduction in Force
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

Accountability Report Transmittal Form

Agency Name-State Treasurer's Office

Date of Submission-Monday, September 15, 2003

Agency Director-Grady L Patterson, Jr., State Treasurer

Agency Contact Person-Paige H Parsons

Agency Contact's Telephone Number-734-9822