

ANNUAL ACCOUNTABILITY REPORT
FOR FISCAL YEAR 2007-2008

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STATE TREASURER

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EXECUTIVE SUMMARY

I.1 - MISSION STATEMENT

Our mission is to serve the State of South Carolina by managing its financial assets in ways that maximize value and promote the best interests of its citizens. To this end, we will strive to be good stewards of the public trust by performing our responsibilities under the highest standards of accountability, service, honesty and integrity.

VISION

A “vision” helps an organization to know the direction in which it is headed. If you don’t know where you’re going, how do you know if you’re going in the right direction? Our office believes a vision helps set direction and believes that only together can a vision be followed.

A “vision” is usually set by the leader of an organization. However, in order for a vision to truly be followed, everyone must share in it and know why it’s there. All of our employees together have had input into the creation of a vision for our office. Our vision is one that looks ahead 5, 10, 20, and 30 years. How will our actions affect the future? Everything we do is done with the future in mind. Our financial decisions are for the long haul, and so must be our vision. Nothing shows this more than our work with the State Retirement System and the Cost-of-Living Adjustment. The right action now has positively affected the future of our state and our employees for the next 30 years.

VALUES

The values of those employed by the State Treasurer’s Office remain the very highest in state government. All of our employees are committed to serving state government, the public, and our public institutions with the very highest integrity. We remind ourselves regularly that we work for the people of South Carolina, and what we do and how we do it is seen by our citizens and people and institutions all across the country.

Our employees take pride in everything we do, whether it is work seen by the public, or work solely seen by fellow employees. The leadership of the office values the work of each of our employees, while our employees place a high value on the work they produce.

Strong values create success. Because of the nature of our responsibilities, a mistake in judgment or operations could cost millions of dollars. The values we adhere to and the commitment we share ensures that our work is accurate time and time again.

I.2 - MAJOR ACHIEVEMENTS

Major achievements of the State Treasurer’s Office (STO) during FY08 include the following:

- Our office addressed a major problem (One that had been identified years ago) with our State Retirement System. For more than a year, our office worked with state government agencies, private sector organizations and key financial leaders from across the state to address the Retirement System's growing unfunded liability of nearly \$9 billion. No significant action had been taken to solve this ever growing problem. After creating the COLA Task Force, our office worked tirelessly over twelve months to find a solution. We did. The plan developed by the Task Force was put into legislation which was passed by the General Assembly. This plan:

- Protects the stability of the State Retirement System.
- Decreases the \$9 billion unfunded liability of the Retirement System.
- Stops the granting of costly ad hoc COLA's that are unaffordable.
- Guarantees retirees a 2% COLA without any additional funding.
- Protects our State's credit rating by reducing the \$9 billion liability.

This plan will save our State billions of dollars over time. We are very proud of the leadership our office provided on this important issue.

- After countless hours of planning, preparation and training, the STO became one of the first agencies to "go live" on the new South Carolina Enterprise Information System (SCEIS). The Internal Operations section of the STO, along with five other agencies, successfully converted its procurement, budgeting, fixed assets and financial accounting systems to the new SCEIS solution in November 2007. The very first voucher to be paid in the new system was an STO originated transaction. Internal Operations staff attended over 150 hours of classroom training in preparation for using the new system and spent many weeks assisting the SCEIS team with master data identification and translation.
- Our office identified areas in which we could voluntarily cut spending. After a careful review of expenditures, our office made a permanent cut to our budget of \$100,000. Making government more effective and efficient remains a goal of the STO.
- Helping more South Carolinians save for college is another achievement for the past year. Eleven thousand new participants are now taking part in our "Future Scholar" 529 College Savings Plan. This brings the total to over 76,000 with assets now over the \$1 billion mark.
- Creating an in-house website for the Tuition Prepayment Program. This allows for more customer friendly and efficient interaction with state government.

I.3 - STRATEGIC GOALS

The goals of the State Treasurer's Office remain at a high level. Our goals align well with our mission statement. *"Our mission is to serve the State of South Carolina by managing its financial assets in ways that maximize value and promote the best interests of its citizens. To this end, we strive to be good stewards of the public trust by performing our responsibilities under the highest standards of accountability, service, honesty and integrity."*

With the current financial conditions that are occurring across the country, it is imperative that the State Treasurer's Office maintains a constant vigil on every dollar entrusted to the office. The office has also

reached out to local governments across the state to help the County Treasurers and finance officers receive the most state of the art financial information and guidance available. The STO worked 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 a main focus for the STO. We are proud that the STO was one of the very first agencies to implement this technology.

The focus on customer satisfaction and courtesy also continues. The response our office has gotten from local government has been extremely positive in regards to our local government training efforts. As always, we have dedicated personnel answering the phones and providing information rather than an automated answering system.

I.4 – KEY STRATEGIC CHALLENGES

The key challenges to meeting our strategic goals are market conditions over which we have no control and tuition increases over which we have no control.

We have been able to continue to provide first-rate service while adhering to the several budgets cuts that have occurred during the past year.

With the proper allocation of duties, we have been able to cross train individuals so that office costs continue to remain low. The office continues to increase the use of technology to improve operations and reduce costs.

The South Carolina Tuition Prepayment Program was closed by the General Assembly this year. However, we continue to provide a high level of service to the 6,200 accounts currently in the program.

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 and 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 analyses.

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 State’s vendors Taxpayers Local governments Recipients of other state disbursements |
| Investment services for all state funds, the Local Government Investment Pool, the Tuition Prepayment Funds, and custodial services for the South Carolina Retirement System funds | State agencies and institutions Local governments and school districts Contributors to and beneficiaries of the Tuition Prepayment Program Members of the South Carolina Retirement Systems |
| 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 Program | 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 1st and 2nd floors of the Wade Hampton Office Building, Capitol 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. At fiscal year end, we were operating with 90% of our authorized FTEs or 62.75 positions filled and 7.25 positions vacant. We also have eight temporary employees. 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

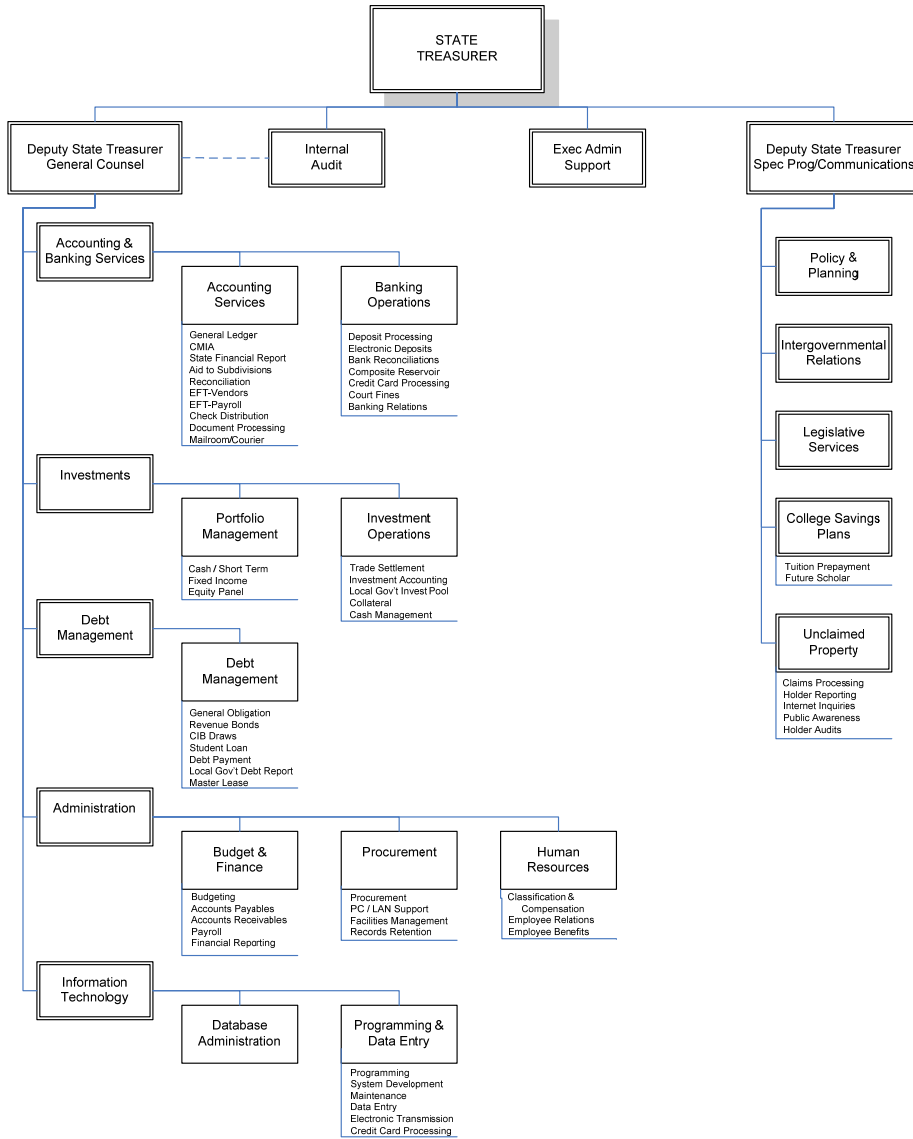
College Savings Plans. The Office is responsible for compliance with CMIA requirements and arbitrage rebate calculations.

II.8. 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, is 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.9. The Organizational Chart that follows indicates the primary functions of each division.

State Treasurer's Office



II. 10. The Expenditures/Appropriations 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 06-07 Actual Expenditures | | FY 07-08 Actual Expenditures | | FY 08-09 Appropriations Act | |
|-------------------------------|------------------------------|---------------|------------------------------|---------------|-----------------------------|---------------|
| | Total Funds | General Funds | Total Funds | General Funds | Total Funds | General Funds |
| Personal Service | \$ 3,211,563 | \$ 2,010,081 | \$ 3,217,809 | \$ 1,895,793 | \$ 3,409,550 | \$ 1,887,213 |
| Other Operating | \$ 897,472 | \$ 333,052 | \$ 1,427,369 | \$ 319,616 | \$ 1,089,646 | \$ 183,564 |
| Special Items | \$ 8,989,706 | \$ 1,622,662 | \$ 7,835,770 | \$ 1,850,051 | \$ 5,742,044 | \$ 375,000 |
| Permanent Improvements | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Case Services | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Distributions to Subdivisions | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fringe Benefits | \$ 823,927 | \$ 515,374 | \$ 904,450 | \$ 532,833 | \$ 979,513 | \$ 551,985 |
| Non-recurring | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 13,922,668 | \$ 4,481,169 | \$ 13,385,398 | \$ 4,598,293 | \$ 11,220,753 | \$ 2,997,762 |

Other Expenditures

| Sources of Funds | FY 06-07 Actual Expenditures | FY 07-08 Actual Expenditures |
|-----------------------|------------------------------|------------------------------|
| Supplemental Bills | \$ - | \$ 20,000,000 |
| Capital Reserve Funds | \$ - | \$ - |
| Bonds | \$ - | \$ - |

II.11. The Major Program Areas Chart lists the agency's major service programs of the total budget.

| Program Number and Title | Major Program Area Purpose (Brief) | FY 06-07 Budget Expenditures | FY 07-08 Budget Expenditures | Key Cross References for Financial Results* |
|---------------------------|---|--|--|---|
| II. Programs and Services | Accounting and Banking provides statewide services to all agencies and institutions by receipt and distribution of funds from all sources. | State: 827,064.00 Federal: 0.00 Other: 190,449.00 Total: 1,017,513.00 % of Total Budget: 7% | State: 840,230.00 Federal: 0.00 Other: 173,242.00 Total: 1,013,472.00 % of Total Budget: 8% | Figures 7.1.1, 7.1.2, 7.1.4 and 7.1.5 |
| II. Programs and Services | Investments 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: 805,212.00 Total: 805,212.00 % of Total Budget: 6% | State: 0.00 Federal: 0.00 Other: 847,206.00 Total: 847,206.00 % of Total Budget: 7% | Figures 7.2.1, 7.2.2 and 7.2.3 |
| II. Programs and Services | Debt Management provides statewide debt management services for the State, its agencies and institutions by management of debt issues including debt structure and payments. | State: 345,402.00 Federal: 0.00 Other: 95,886.00 Total: 441,288.00 % of Total Budget: 3% | State: 179,112.00 Federal: 0.00 Other: 265,357.00 Total: 444,469.00 % of Total Budget: 3% | Figures 7.3.1, 7.3.2, 7.3.3 and 7.3.7 |
| II. Programs and Services | Unclaimed Property Program 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: 567,807.00 Total: 567,807.00 % of Total Budget: 4% | State: 0.00 Federal: 0.00 Other: 757,426.00 Total: 757,426.00 % of Total Budget: 6% | Figures 7.4.1 and 7.4.3 |
| II. Programs and Services | SC Tuition Prepayment Program (SCTPP) / SC College Investment Program (Future Scholar) 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: 415,101.00 Total: 415,101.00 % of Total Budget: 3% | State: 0.00 Federal: 0.00 Other: 398,342.00 Total: 398,342.00 % of Total Budget: 3% | Figures 7.5.1, 7.5.3, 7.5.5 and 7.5.6 |
| III. Special Items | Student Loans-Teachers 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: 5,985,719.00 Total: 7,608,381.00 % of Total Budget: 58% | Figure 7.3.8 |
| III. Special Items | Prosecutor/Pub Defender are pass through funds disbursed to the SC Student Loan Corporation to fund the Prosecutors and Defenders Public Service Incentive Program. | State: 0.00 Federal: 0.00 Other: 0.00 Total: 0.00 % of Total Budget: 0% | State: 227,389.00 Federal: 0.00 Other: 0.00 Total: 227,389.00 % of Total Budget: 2% | |

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

| | | |
|--|------------------------|------------------------|
| Remainder of Expenditures: | State: 1,686,041.00 | State: 1,728,900.00 |
| Support Systems of the office include Administration, Information Technology, Legislative and Constituent Services. | Federal: 0.00 | Federal: 0.00 |
| | Other: 0.00 | Other: 0.00 |
| | Total: 1,686,041.00 | Total: 1,728,900.00 |
| | % of Total Budget: 12% | % of Total Budget: 13% |

* 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 – SENIOR LEADERSHIP, GOVERNANCE, and SOCIAL RESPONSIBILITY

(Questions 1-11 are addressed in this section)

The STO has weekly staff meetings with the senior leaders to discuss goals and objectives of the office. Each week we discuss the progress made in each of the areas we've identified as needing work. We work on our short-term goals with a watchful eye on our long-term mission and goals for the office. Senior leaders in turn discuss these goals with their departmental staff.

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 continues to believe 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 a new and improved website, by handling telephone calls in person rather than through a menu driven voice mail system and by maintaining an open door policy.

Making our office forms available on the updated website, has made our office more customer friendly. This important improvement was achieved due to the open discussions that occurred during departmental staff meetings.

As a Constitutional 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 state funds, especially retirement funds.

Our office worked together on finding a way to solve the unfunded liability problem with the State's Retirement System. By all departments working together, and working with the members of the COLA Task Force, we were able to find a solution to a problem that has plagued the State for decades.

There has been little turn-over with our senior leaders at the STO. This has proved to be an advantage when it comes to helping employees learn the skills they need, not only to conduct the work in an efficient and effective manner, but to improve and advance.

The senior leaders have been instrumental in creating new motivation and recognition plans for the office. From finding better ways to use the EPMS process, to creating new avenues to motivate individual employees, to designing ways to enhance camaraderie, the seniors have worked hard to make the work environment a healthy and prosperous one.

Seniors have also encouraged their employees to attend workshops and classes to increase their knowledge and ability to advance.

III.2 - STRATEGIC PLANNING

(Questions 1 – 7 are addressed in this section)

We have written in this report that 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**

They continue to be a high priority. With the recent fluctuations in the financial markets, our core banking and investment services remain our top priority.

STO efforts for supporting higher 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.

Currently, the number of Future Scholar accounts has grown to over 76,000 with a market value of more than \$1 billion. Still 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.

South Carolina's Future Scholar Plan has been awarded the highest ratings by groups that rate plans in each of the 50 states. In addition, we are proud that no tax dollars go toward the operation of this program that benefits so many South Carolina families.

The South Carolina Tuition Prepayment Program (SCTPP), which was transferred to the State Treasurer's Office in 2000, has been permanently closed by the General Assembly. Large tuition increases at the State's public colleges and universities have contributed greatly to a growing unfunded liability. The STO continues to provide the very best customer service to the remaining 6,200 accounts in the program.

The program will most likely continue to need some additional funding by the General Assembly in order to meet its obligations.

The STO also worked 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.

The STO worked on an Act that authorizes the University of South Carolina to issue revenue bonds to provide funds for the acquisition, construction, and equipping of its new business school facility and the renovation of the Close-Hipp building.

The STO 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.

Strategies for bolstering economic development:

Maintaining a strong credit rating also helps promote the State's reputation as a good investment choice. Working to regain the State's AAA credit rating with one of the three credit rating agencies is something that our office will endeavor to work on during the months ahead.

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.

Making our state financially healthy has many multiplying effects on our economy. Maintaining fiscal restraint and a strong reserve will help South Carolina weather any future financial downturn.

The STO works with the Department of Commerce in providing funding for large economic development projects. Recently, the STO has worked on ideas on how to make the State's film industry incentives more productive for our State and our workers.

In addition, the State Treasurer will announce several fiscal reform measures during the end of 2008 that will help our State deal with the current budget and economic uncertainty that exists.

The STO is working with the State Retirement Investment Commission on a plan that will seek to establish a fund that will bolster both new and existing South Carolina companies by putting assets to work in-state.

Strategies for promoting greater efficiency in government:

The State Treasurer reviewed the operations of the office and found a way to make a voluntary permanent cut of \$100,000 to the STO budget. The STO has made a major effort in reducing unnecessary costs, creating a more "paperless" environment, and using more advanced technology to accomplish our goals.

We have undertaken an effort to move toward a "pay stub free" environment. To place employees' pay stub information on a secured personal internet site is a goal we hope to achieve in the summer of 2010. Not having to provide hard copies of pay stubs will save the state hundreds of thousand of dollars in printing, and distribution costs. The STO has already begun working with a number of state agencies on a voluntary reduction in pay stubs.

By placing key agency forms on the internet, we have made certain reporting functions more efficient.

Strategic Planning Chart

| Program Number and Title | Supported Agency Strategic Planning Goals/Objectives | Related FY 07-08 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 workflow with existing staff | Figure 7.1.1 and Figure 7.1.2 |
| | 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 | Figure 7.1.4 and Key Results – Banking 4.1 |
| | 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 5.1 and Banking 3.1 and 3.2 (new record!) |
| | 1.4 Distribute shared revenue | Utilize and regularly review automated systems to assure compliance with applicable distribution laws | Figure 7.1.3 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 7.1.5 and Key Results – Banking 6.1 to 6.6 |
| 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 7.2.3 |
| | 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 7.2.1, Figure 7.2.2, Figure 7.2.5, |
| | 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 |

| | | | | |
|-----------------------|-----|--|--|--|
| 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 7.3.1, and Figure 7.3.2 |
| | 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 7.3.4 |
| | 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 7.3.3 |
| | 3.4 | Process capital improvement draws as requested by state agencies | Utilize automated system for monitoring of authorized draw schedule and processing of draws | Key Results Debt 4.1 and Figure 7.3.7 |
| | 3.5 | Process Housing Authority transactions as requested | Coordinate with Housing Authority | Key Results Debt 5.1 and Figure 7.3.8 |
| | 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 |
| | 3.9 | Perform other special analyses as requested. | Provide professional advice and services for both in-house and external customers. | Key Results – Debt 9.1 |
| 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 thru 1.3 |
| | 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 |
| | 4.3 | Aggressively seek rightful owners | Target searches for large claims, and partner with other state agencies to locate owners of unclaimed funds | Key Results – UPP 3.1 thru 3.3, and Figure 7.4.1 |
| | 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 7.4.2 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 taking into consideration one time events | Figure 7.4.3 |
| 5. College Savings | 5.1 Increase the number of college savings accounts within the programs particularly among South Carolinians | Promote college savings to South Carolinians at all income levels and throughout the State | Figure 7.5.1 and Key Results – CSP 1.1 |
| | 5.2 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 1.2.1 |
| | 5.3 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 1.2.2 |
| | 5.4 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, and manage the program investment strategy | Key Results – CSP 1.3.3 Chart 7.5.3 Chart 7.5.6 |
| * 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. | | | |

III.3 - CUSTOMER FOCUS

(Questions 1-6 are addressed in this section)

The State Treasurer's Office has always relied on direct customer feedback to improve service to its customers.

We have accomplished this in part through continued participation in conferences and forums with financial institutions and state agencies, as well as public meetings attended by the State Treasurer and his staff. By conducting workshops with local county treasurers, we have made the interaction between state and local government smoother.

The State Treasurer's Office deals with the public directly in two specific areas, with the Unclaimed Property Program and with our Future Scholar Program.

Handling unclaimed property claims as efficiently as possible is an important customer service. With increased promotion and recognition of the program comes more customer interaction. Our staff has made a greater commitment to handling the unclaimed property claims as quickly as possible.

We also work closely with the public regarding our 529 College Saving Program. Our efforts in educating people across the state about the advantages of our Future Scholar Program have been very successful. We work closely with citizens while walking them through what can be an overwhelming process. The success of our efforts is very clear. Thousands of families are now saving for college in a responsible way.

We continue to interact with the public on retirement issues, tax refund checks, vendor checks, paychecks, and deferred compensation programs.

Our programs are detailed on the State Treasurer's Office website 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 and updated 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.

Inquiries by the Legislature are handled through a dedicated professional staff that coordinates research and provides accurate information on legislative matters.

Our office provided an immense amount of research and support to the COLA Task Force and to legislative committees and individual legislators during the 2008 Legislative Session.

Our office worked with the Legislature on closing the Tuition Prepayment Program to new applicants. This has helped to end the increasing unfunded liability with that program.

We worked to help local governments by passing H.3749 which in part, allowed the governing body of any municipality, county, school district, or local government or political subdivision and county treasurers to invest money subject to their control and jurisdiction in certain types of investments.

The STO also worked with the banking industry and county and municipal treasurers to write a bill which addresses collateralization matters. The legislation allows banks to secure deposits under both the dedicated and pooling methods. This bill passed and takes effect on January 1, 2009.

As always, 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.

We recognize that ultimately our customers are the taxpayers of South Carolina. With that in mind, our new mission statement was drafted by all the employees of our office. To make our State a better place to live, work, and do business is something the State Treasurer's Office is committed to on an ongoing basis.

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 Commission’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, and payroll and personnel transactions is confirmed with statewide reporting systems and subjected to routine audit.

Agency data is subjected to annual audit directly by at least 8 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 doing follow-up audits on Court Fine remittances; and
 - Statewide single audit team for compliance with CMIA.
-
- Additionally this year, a fiduciary audit of roles, responsibilities and internal controls over the investments of the South Carolina Retirement Systems included reviews of the Treasurer's Office policies and procedures as custodian of the funds.

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. 5 – WORKFORCE FOCUS

1. How does management organize and measure work to enable your workforce to: 1)develop to their full potential, aligned with organization’s objectives, strategies, and action plans; and 2)promote cooperation, initiative, empowerment, teamwork, innovation and your organizational culture?

During the fiscal year, the new Treasurer set the tone at the top by hosting an executive level retreat that allowed Division Directors to identify priorities for the coming year. The retreat was followed by a series of meetings with the Treasurer and staff to solicit input and encourage participation on four teams identified at the retreat: a new mission statement team, a work environment team, an employee reward and recognition team, and a training team. Several committee recommendations have been approved and implemented by Senior Management. These focus groups are ongoing in meeting the agency’s goals and objectives.

Since year end, the office has sponsored training on the EPMS process with the focus on writing objectives for each employee that are in line with the agency’s mission statement and how to evaluate employees using agency-wide standards.

2. How do you achieve effective communication and knowledge/skill best practice sharing across departments, jobs, and locations? Give Examples.

Because of the time sensitivity of services provided by our agency, it is imperative that employees are crossed trained in their departments to fill in for coworkers to ensure all critical job functions are performed. Employees are encouraged to develop a desk reference manual of their job functions to be used by others in their absence. In many areas employees are not only trained in their own departmental duties but are trained to backup other divisions.

3. How does management recruit, hire, place, and retain new employees? Describe any barriers that you may encounter.

The new eRecruitment system, NEOGOV implemented by Office of Human Resources has provided our agency electronic access to a more qualified applicant pool from which to choose. The system allows us to apply specific job training questions and filters to our vacancy announcements thus providing us with only the applicants who meet the job qualifications we are seeking. Once hired, employees are given in-house orientations and trained on the job for agency specific duties.

As a result of our efforts, the State Treasurer’s Office met 97.5% of its affirmative action goals for the year, ranking 5th in the top 10 agencies with 15-100 employees and 7th overall among all state agencies.

4. How do you assess your workforce capability and capacity needs, including skills, competencies, and staffing levels?

At the request of Senior Management, Office of Human Resources conducted an assessment of selected human resources practices in the Treasurer’s Office. HR practices reviewed included

review of position descriptions, pay practices, organizational design, career progression and training needs. The recommendations of the study are being evaluated and implemented.

5. How does your workforce performance management system, including feedback to and from individual members of the workforce, support high performance work and contribute to the achievement of your action plans?

The State Treasurer's Office actively seeks employee input and feedback in relation to their positions and how it relates to agency functions and processes. The performance evaluation period provides supervisors and employees opportunities to discuss ways in which employees can improve their performance and be successful in their jobs. These sessions also allow supervisors an opportunity to assess employee satisfaction, workload, and well-being and gain insight and input from employees on how to improve processes. There is an ongoing emphasis on making sure goals and success criteria for individual employees are in alignment with the agency's mission and action plans.

6. How does your development and learning system for leaders address the following: a) development of personal leadership attributes; b) development of organizational knowledge; c) ethical practices; and d) your core competencies, strategic challenges, and accomplishment of action plans?

Positions in the Treasurer's Office require our leaders to have very specific qualifications and experience that relate to the day-to-day functions of the agency. Senior management is encouraged to participate in training for professional development and growth which improves the work effort and the work environment. Weekly senior management meetings are held to keep all departments abreast of what activities are taking place within the agency and how those activities impact other departments. These weekly meetings have been successful in increasing our leadership's understanding of the agency and how all the various departments are connected to one another in fulfilling the agency's goals and objectives.

7. How do you identify and address key developmental training needs for your workforce, including job skills training, performance excellence training, diversity training, management/leadership development, new employee orientation, and safety training?

During the past fiscal year, the Treasurer reinforced the agency's commitment to employee satisfaction and development through its request to OHR to conduct an agency HR audit to identify HR areas in which the agency could make improvements. One recommendation involved identifying positions that are mission critical and developing workforce succession plans for each division. Work has already begun on this process and is ongoing. It was also recommended that the agency offer employees more opportunities for professional development and more training for supervisors. Our training initiative has been implemented and is ongoing and employees and supervisors alike have been and will be attending various training programs in the new fiscal year, particularly those identified through the Training Team discussed above.

8. How do you encourage on the job use of new knowledge and skills?

The 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.

9. How does employee training contribute to the achievement of your action plans?

Due to the time sensitive nature of job functions within the Treasurer's Office, it is imperative that employees are well-trained and prepared to fulfill day-to-day functions. Cross training on particularly critical functions allows others to not only learn the functions but also to be available to perform the functions at a moments notice. Finally, other industry specific training or technical training allows employees to bring new innovations to daily tasks and improve their core competencies.

10. How do you evaluate the effectiveness of your workforce and leader training and development systems?

The State Treasurer's Office prides itself on the low turnover rate of employees. Our goal is to train employees to be prepared to progress in their career as opportunities arise. One measure of our success is the availability of qualified internal applicants for positions when posted. Another measure is that supervisors are now being evaluated on their succession planning and training of employees.

11. How do you motivate your workforce to develop and utilize their full potential?

Recognition of staff for their accomplishments continues to be an important responsibility of Senior Management. Efforts are ongoing through our Employee Reward and Recognition Team to identify meaningful ways for that to happen.

Employees were honored with a luncheon during Employee Appreciation Week.

Our employees are encouraged to participate in agency and community activities. They participated in a number of fund-raising and charity activities such as the United Way, Communities Health Charities, the First Ladies' Walk for Life, United Black Fund and the Harvest Hope Food Bank. The office sponsored a book fair in which we earned approximately \$143 from book sales that we donated to United Way.

12. What formal and/or informal assessment methods and measures do you use to obtain information on workforce well-being, satisfaction, and motivation? How do you use other measures such as employee retention and grievances? How do you use this information?

Employee well-being and satisfaction is informally measured through day-to-day interactions, conversations and departmental meetings. Employee motivation is more formally assessed through the division's employee planning and evaluation process. Exit interviews with employees leaving the agency are conducted to get feedback from employees on their employment experience with the agency. Data is collected and priorities for improvement are identified and implemented accordingly. The agency has not experienced any grievance complaints. Employee retention is an important focus of the agency.

13. How do you manage effective career progression and effective succession planning for your entire workforce throughout the organization?

During the past fiscal year, the agency has continued its efforts in developing its succession plan by identifying those employees in critical needs areas who will be eligible to retire in the next 3 to 5 years. Discussions are underway with Division Directors to determine the needs of each division and to identify those individuals who have potential to step into leadership roles with proper training and development. This process is ongoing as it relates to the agency's goals and objectives.

14. How do you maintain a safe, secure and healthy work environment? (Include your workplace preparedness for emergencies and disasters.)

The agency continues its commitment to its workforce by promoting employee well-being in a safe, secure and healthy work environment. Employee participation in benefits fairs, health screenings, mammograms and flu shots is encouraged and supported to ensure the health of employees. Routine reviews of office space and equipment are conducted to ensure the safety of employees. Managers and employees are encouraged to report any safety or health issues immediately. In case of emergencies, disasters, or evacuation, an Emergency Operations Plan is in place.

III.6 - PROCESS MANAGEMENT

(Questions 1 – 7 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, sub-account systems for depository accounts and 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.

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 new legislation was passed to allow banks to pool collateral for all their public funds, to be monitored by the State Treasurer's Office. Forms and procedures are being developed in order for that option to be available on a voluntary basis by January 1, 2009.

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.

The overall objectives of the fixed portfolio for Retirement Funds are provided in the Statement of Investment Objectives adopted by the South Carolina Retirement System Investment Commission, of which the Treasurer is a member. Monthly reports provided by the custodial bank are reviewed by the STO as part of their ongoing custodial responsibilities.

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 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.

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, Information Technology, 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. As mentioned previously, the Administration Division has successfully completed its transition to the state's new Enterprise Information System (SCEIS).

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.

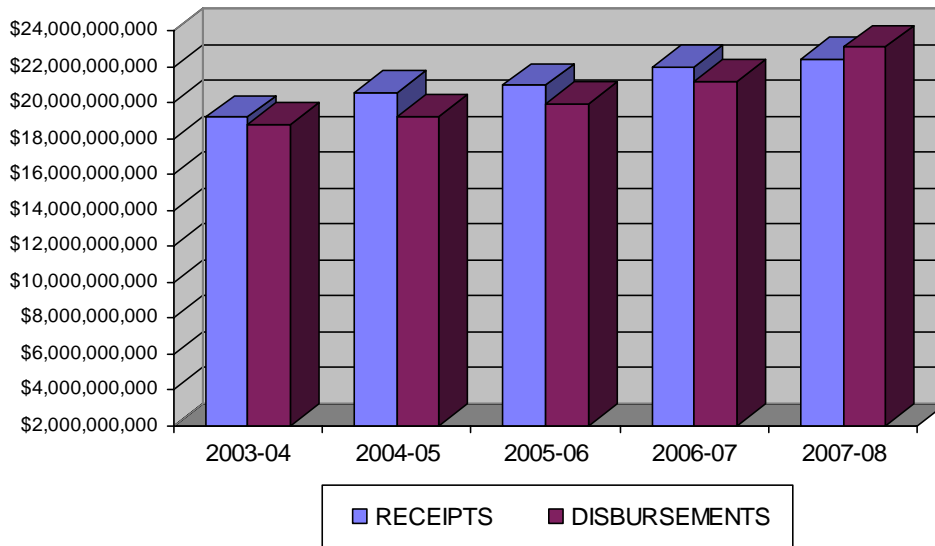
III.7 RESULTS

7.1 Accounting and Banking

Program Cost:

| | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> |
|-------------------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| State Funds | | | | | |
| Accounting | | \$ 444,499 | \$ 512,588 | \$ 562,766 | \$ 611,992 |
| Banking | | \$ 226,671 | \$ 234,723 | \$ 264,298 | \$ 228,238 |
| Total State Funds | \$ 736,401 | \$ 671,170 | \$ 747,311 | \$ 827,064 | \$ 840,230 |
| Other Funds - Banking* | \$ 182,003 | \$ 162,593 | \$ 185,456 | \$ 190,449 | \$ 143,357 |
| Total | \$ 918,404 | \$ 833,763 | \$ 932,767 | \$ 1,017,513 | \$ 983,587 |
| FTE's | 15.70 | 15.70 | 16.80 | 15.80 | 15.90 |
| Temporary employees | | | | | 1.00 |

Figure 7.1.1 - 5 Year Comparison of Cash Receipts and Cash Disbursements



Note: Figure 7.1.1 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.

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 40% 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 7.1.2 - Comparison of Disbursements by Type

| | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> |
|------------------------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|------------------|-------------|
| Disbursements | | | | | | | | | | |
| Paper Checks | 2,891,570 | 67% | 2,823,083 | 66% | 2,767,635 | 64% | 2,672,063 | 61% | 2,654,720 | 60% |
| Electronic Payments | <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> | <u>1,779,981</u> | <u>40%</u> |
| Total Disbursements | <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> | <u>4,434,701</u> | <u>100%</u> |
| FTE's in Process Area | 3.25 | | 3.25 | | 4.00 | | 4.00 | | 4.00 | |

- 2. Distribute Shared Revenues to subdivisions as required by law between the 20th and the 25th of each month.**

2.1. All shared revenues were distributed according to State Treasurer’s Office (STO) policy between the 20th and 25th of the month in which distribution is required by statute.

Figure 7.1.3 - 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 |
| | | 11% Liquor by the Drink Excise Tax |
| | | Accommodations Tax |
| | | Accommodations Tax – Tourism Districts |
| | | Solid Waste Tire Fees |
| | | Aid to County Veterans Offices |

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 imprest accounts reconciliation process at a 1 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, 2008, 1,472 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 printing.**
 - 7.1. All were completed within 24 hour turnaround from the morning they were received from the printer.
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.

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 served as subject matter experts (SMEs) on the South Carolina Enterprise Information System (SCEIS) project. The project's focus was on the Go Live and Support Phase. During the Go Live and Support Phase, 17 state agencies began using SCEIS as their books of record. Additional agencies will be brought into the system in staged groups every few months, until eventually all State agencies will conduct their business within the single statewide business system.

Banking Program Goals:

- Receive, audit, 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.
- 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.

Banking Objectives and Key Results:

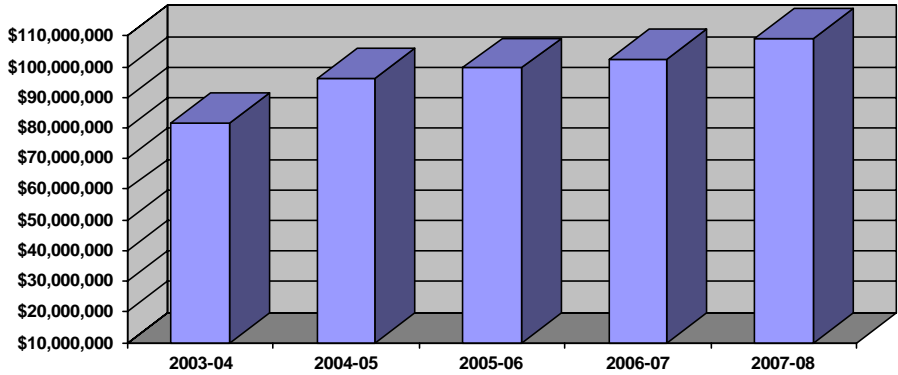
1. **Record all deposits within one business day of receipt from the agencies.**
 - 1.1. Deposits were recorded within one business day of receipt from agencies.
2. **Increase the number of agencies using the electronic deposit system, focusing on the high-volume deposit agencies.**

Figure 7.1.4 - Comparison of Receipts by Type

| | <u>2004-05</u> | | <u>2005-06</u> | | <u>2006-07</u> | | <u>2007-08</u> | |
|------------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> |
| Receipts: | | | | | | | | |
| Manual Deposits | 48,359 | 29% | 36,839 | 21% | 38,293 | 22% | 39,233 | 21% |
| Automated Deposits | 75,896 | 45% | 90,913 | 53% | 92,529 | 52% | 96,841 | 53% |
| Credit card deposits | 35,232 | 21% | 37,599 | 22% | 41,628 | 23% | 43,611 | 24% |
| ACH Deposits | <u>7,749</u> | <u>5%</u> | <u>6,967</u> | <u>4%</u> | <u>5,722</u> | <u>3%</u> | <u>4,452</u> | <u>2%</u> |
| Total Deposits | <u>167,236</u> | <u>100%</u> | <u>172,318</u> | <u>100%</u> | <u>178,172</u> | <u>100%</u> | <u>184,137</u> | <u>100%</u> |
| FTE's in Process Area | 4.00 | | 4.00 | | 4.00 | | 4.00 | |

- 2.1. There was an approximate 2% increase of automated vs. manual deposits. The number of deposits in almost all of the categories increased, as well. The STO continued to process deposits within the one day requirement, utilizing enhancements already in place. By the end of the year eleven state agencies had converted from their legacy accounting systems to SAP and began submitting deposits to the STO through SCEIS. As further implementation continues, the number of manual deposits should decrease.
- 3. Reconcile all bank accounts of the State 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 or less.
 - 3.2. The STO continued diligent efforts to identify and process unclaimed deposits. Unrecorded deposits totaled a low \$502,700 or 0.002% 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. Work with Banks to analyze agency use and needs of available Banking Services.**
 - 4.1. The STO continues to meet with representatives from different banks on a regular basis to discuss current banking practices and new services available on the market. These meetings provide our office insight on possible enhancements or cost-saving practices to explore. This also presents an opportunity to discuss, first-hand with bank vendors, issues that may need attention on current services already being utilized by the STO.
- 5. Provide for the reporting and disbursement of existing and new Court Revenues required by legislation.**
 - 5.1. Two new court fines were added during the legislative session that had to be incorporated into our forms and distribution systems. The STO coordinated notifications of the changes to courts and local officials with the Judicial Department.
- 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.**
 - 6.1. To date 77 Court Fine audits have been issued by the outside auditor contracted through the State Auditors Office. STO staff has implemented a monitoring system for those audit findings to assure corrective actions are taken and any funds due to the state are received. During the fiscal year, \$402,887 in delinquent fines was collected as a result of those efforts.
 - 6.2. A new proviso was also added to the FY09 Appropriation Bill which gives the STO the authority to withhold some or all aid to subdivision funds to local governments in the following three situations:
 - 6.2.1. Local government becomes 90 days delinquent in submitting court revenues to STO
 - 6.2.2. Local government does not remedy audit findings related to court revenues within 90 days of issuance of the audit report.
 - 6.2.3. Local government fails to provide annual audited financial statements to STO as required by law.

Figure 7.1.5 - Fines, Fees and Assessments Collected and Remitted



- 6.3. At June 30, 2008, 11 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. STO staff made phone calls to all on the delinquent list and will begin sending notices to them that their state aid could be withheld according to the new proviso in the FY 09 appropriation bill.
- 6.4. Out of 248 entities remitting Court Fines to the office, 88 have not submitted the required annual audit reports for Fiscal Year 2007. Letters have been sent to all who have not submitted the reports reminding them of the requirements and notifying them that their state aid could be withheld according to the new proviso in the FY 09 appropriation bill.
- 6.5. At their request, the STO conducted training for County Treasurers and their staffs on the Court Fines process and what the STO is doing to increase compliance. Similar training for Municipal Treasurers is planned for the near future. These training sessions provided valuable feedback from the users to address problems and common mistakes in the revenue remittance process.
- 6.6. The agency applied for and was approved to receive free programming through the state portal to web enable the Court Fine reporting process. Although the March 2008 implementation goal was not met, we are on track to have a web reporting solution available by October 2008. The lessons learned from the auditor in the field, feedback from the users as well as the two new legislated changes will be incorporated into the new system.
- 7. Reconcile the Composite Reservoir Master Bank Accounts and distribute detail account statements to state agencies by the 15th of the month.**
 - 7.1. Composite Reservoir accounts were reconciled with detailed statements distributed to the agencies by the 15th of the month.
- 8. Review all proposed legislation related to banking matters and provide timely feedback.**
 - 8.1. 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.

Comment [SC1]: Paige:
Do you have this information on the audit reports?

7.2 - Investments

Program Cost:

| | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08*</u> |
|--------------|-------------------|-------------------|------------------|------------------|------------------|
| State Funds | | | | | |
| Other Funds | \$ 598,267 | \$ 637,791 | \$756,269 | \$805,213 | \$847,206 |
| Total | \$ 598,267 | \$ 637,791 | \$756,269 | \$805,213 | \$847,206 |
| | | | | | |
| FTE's | 8.00 | 9.00 | 10.00 | 8.00 | 7.55 |
| Temps | | | | | 1 |

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 provide custodial services 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, meet liquidity needs, and meet or exceed the applicable benchmarks while preserving capital.

Figure 7.2.1 - General Funds Rate of Return compared to Benchmarks (Figure)

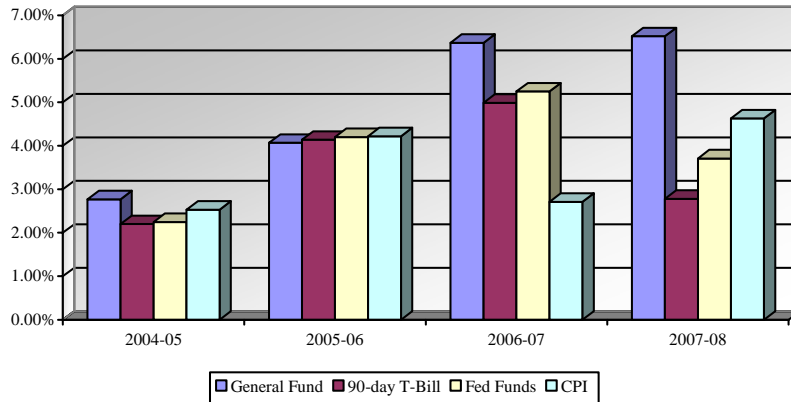


Figure 7.2.2 - General Funds Rate of Return compared to Benchmarks (Figure)

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---------------------------------------|---------|---------|---------|---------|
| Rate of return (cash basis) | 2.77% | 4.07% | 6.37% | 6.52% |
| Benchmarks | | | | |
| 90-day T-Bill rate (12 month average) | 2.20% | 4.14% | 4.99% | 2.78% |
| Fed Funds rate (12 month average) | 2.25% | 4.20% | 5.25% | 3.71% |
| Consumer Price Index | 2.53% | 4.33% | 2.71% | 4.63% |

- 1.1. The portfolio outperformed the benchmarks of 90 day Treasury Bills and the Federal Funds.
- 1.2. During FY08, the Federal Reserve Open Market Committee lowered short term rates from 5.25% to 2.00%. The decrease had a minimal effect on the overall investment performance of the General Fund as we were able to lock in higher rates from the prior fiscal year.
- 1.3. The State's Local Government Investment Pool (LGIP) earned a rate of 4.07% as compared to the average benchmark investment rate of 2.78% (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. The cost for investment management services was 0.0098%, or 0.98 basis points, compared to the industry average portfolio management fees of .10%, or 10 basis points. (Source: Jameson Eaton & Wood, investment advisors)

Figure 7.2.3 – Cost of Investment Management Services

| | FY2005 | FY2006 | FY2007 | FY2008 |
|---|---------------------|---------------------|--------------------|-------------------|
| General Funds Portfolio Management Fees | \$637,791* | \$756,269 | \$805,213 | \$847,206 |
| Investment Commission for Fixed Income | | \$526,130 | \$481,355 | |
| SCRS for Fixed Income | \$712,356 | \$142,282 | \$190,777 | |
| Total Cost | \$1,350,147* | \$1,424,681* | \$1,477,338 | \$847,206 |
| Funds Managed | \$20,579,062,131* | \$19,834,345,888 | \$20,327,864,034 | \$8,595,608,732** |
| Cost as % of Funds Managed* | .0066% | .0072% | .0073% | .0098% |

*Prior to FY 05/06 did not include Local Government Investment Pool.

**FY 2008 does not include Retirement Funds.

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. The Tobacco Healthcare portfolio was transferred to the escrow agent. However, prior to transfer, the portfolio was converted to pre-refunded municipal securities to qualify for the escrow fund. 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 7.2.4 for specifics on funds managed and Figure 7.2.3 for cost of investment services.

Figure 7.2.4 - General and Other Funds Managed

| | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|--|----------------------|----------------------|----------------------|----------------------|
| Workload - State and local | | | | |
| General funds managed (average) | 942,146,286 | 1,714,211,023 | 2,021,494,494 | 1,896,963,211 |
| Restricted funds managed (average) | 3,101,038,477 | 3,356,956,210 | 3,729,677,700 | 4,250,695,439 |
| Tobacco funds managed | 458,836,644 | 487,715,450 | 460,411,362 | 265,000 |
| Total State funds managed | <u>4,502,021,407</u> | <u>5,558,882,683</u> | <u>6,211,583,556</u> | <u>6,147,923,650</u> |
| LGIP funds managed (average) | 2,059,867,527 | 1,957,665,038 | 2,065,724,013 | 2,447,685,082 |
| LGIP Accounts | 509 | 519 | 554 | 553 |
| Number of State and local portfolios | 22 | 20 | 20 | 20 |
| Total number of investment trades | 4,698 | 4,356 | 3,435 | 2,644 |
| <i>(FY 2005-2007 included fixed income trades for the S C Retirement System)</i> | | | | |

- 2.3. The plan to go live with the converted LGIP portfolio on the QED system was postponed for a year due to the Retirement System assets being transferred to the Retirement Commission and the SCSEISA project taking staff time away from LGIP project during the fiscal year. With the completion of several enhancements, implementation is expected in the fall 2008. 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 BNY/Mellon 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.

Figure 7.2.5 - Security Lending Program Performance compared to Benchmarks

| Asset Class | RMA* Utilization | BNY Utilization | RMA Spread | BNY Spread |
|-------------|------------------|-----------------|------------|------------|
| US Govt | 76% | 89% | 75bp | 73bp |
| US Agency | 47% | 71% | 38bp | 32bp |
| GNMA | 23% | 52% | 31bp | 33bp |
| Corporates | 10% | 1% | 38bp | 41bp |

*Risk Management Association Security Lending Committee

Source: BNY/Mellon

2.5. BidSC program continues to be a great success. The quarterly CD auctions resulted in increased earnings for the State of \$729,049 during this fiscal year.

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

3.1. Earnings on General Fund investments were \$123,633,239 which surpassed the investment earnings projection of \$107 million by \$16,633,239.

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.

7. Customer satisfaction and Quantitative measures

There were no complaints from the LGIP participants or any other State Agencies and the local Government Investment Pool experienced significant growth in deposits (see Figure 7.2.4). All funds under management weathered the credit crunch problem over the year unlike some other states. A proactive stance was taken by informing all entities that the State did not have any exposure in the structured investment vehicles (SIV) causing others state’s losses.

Two new portfolios, LTDI Trust Fund and SCRHI Trust Fund were opened in May 2008 to accommodate new OPEB requirements.

The consolidation of the LT portfolio into the State Treasurer’s Investment Management Pool along with the transfer of the Tobacco Healthcare portfolio to the trustee meant that the number of individual portfolios managed remained at 20.

Retirement Funds held in Custody

All fixed income assets and the Investment operations for the SC Retirement System were transferred to the SC Retirement Investment Commission by October 15, 2007. The State Treasurer however, remains the legal Custodian of all Retirement Assets totaling over \$27 Billion. During the year, the Treasurer and

his staff worked with the Commission to create a position and job description for a compliance officer who will report independently to the Commission, on which the Treasurer serves. The Treasurer and his staff also participated in a fiduciary audit of the South Carolina Retirement Systems performed by an independent audit firm.

7.3 -Debt Management

Program Cost:

| | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State Funds | \$ 365,382 | \$ 270,893 | \$ 427,364 | \$ 345,402 | \$ 179,112 |
| Other Funds | \$ 75,012 | \$ 24,848 | \$ 95,886 | \$ 265,357 | |
| Total Funds | \$ 365,382 | \$ 345,905 | \$ 452,212 | \$ 441,288 | \$ 444,469 |
| | | | | | |
| FTE's | 4.00 | 5.00 | 5.75 | 5 | 5 |
| Temporary Employees | 0.50 | 0.60 | | 1 | 2 |

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.

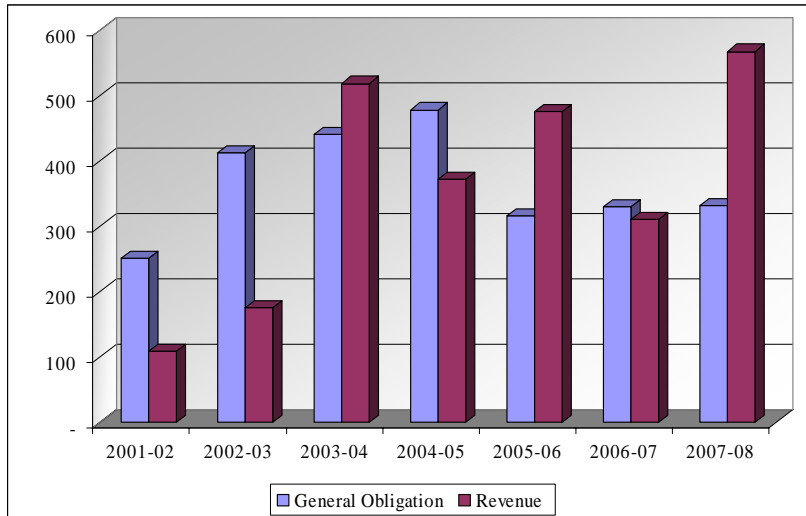
Program Objectives and Key Results:

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

Chart 7.3.1 - Debt payments (in millions)

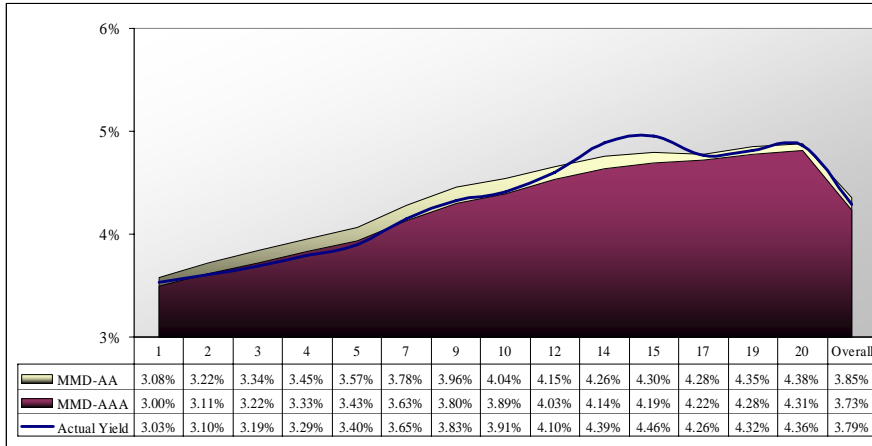
| | <u>Fiscal Year</u> | | | | | | |
|---------------------|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> |
| General Obligation | \$ 250.9 | \$ 412.6 | \$ 441.1 | \$ 478.4 | \$ 316.3 | \$ 329.5 | \$ 331.9 |
| Capital Improvement | 136.6 | 216.5 | 294.7 | 238.6 | 141.5 | 119.9 | 115.3 |
| Revenue | 108.9 | 175.7 | 518.9 | 372.1 | 475.1 | 311.2 | 567.8 |

Graph 7.3.2 - Comparison of debt payments by fiscal year (in millions)



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 yields at the Municipal Market Data (MMD) yields for comparably secured MMD-AA securities. This is partially attributable to the changing interest rate environment, 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 3.79%, as compared to the MMD-AAA and MMD-AA yields for the same period at 3.73% and 3.85%, respectively. The dollar significance of this difference is approximately \$114 thousand of a total interest cost of \$6.8 million for \$178.3 million in general obligation debt issued.

Graph 7.3.3 - Comparison of bond yields



3. Close all debt issues by the required deadline.

3.1. All new bond issues were closed as scheduled.

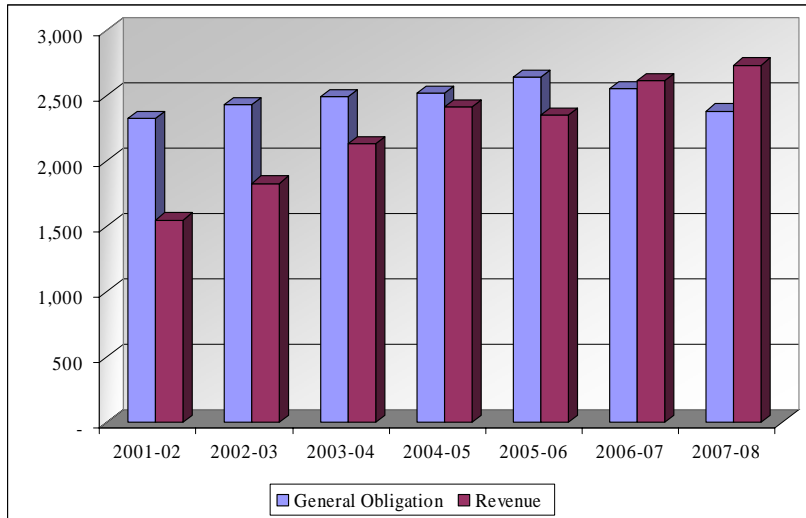
Chart 7.3.4 - Bond issues closed

| | Fiscal Year | | | | | | |
|----------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| General Obligation | 7 | 20 | 12 | 6 | 16 | 5 | 3 |
| Revenue | 7 | 13 | 11 | 16 | 8 | 9 | 14 |
| Intergovernmental | - | 2 | - | - | - | - | 1 |
| Total | 14 | 35 | 23 | 22 | 24 | 14 | 18 |
| Bond Issues Defeased | | 1 | 14 | 6 | 7 | - | 3 |

Chart 7.3.5 - Comparison of outstanding debt (in millions)

| | Fiscal Year | | | | | | |
|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| General Obligation | \$ 2,328.6 | \$ 2,433.3 | \$ 2,494.3 | \$ 2,518.4 | \$ 2,640.6 | \$ 2,555.8 | \$ 2,382.2 |
| Revenue | 1,548.6 | 1,829.3 | 2,133.5 | 2,412.5 | 2,350.1 | 2,614.9 | 2,733.5 |
| Total | \$ 3,877.2 | \$ 4,262.6 | \$ 4,627.8 | \$ 4,930.9 | \$ 4,990.7 | \$ 5,170.7 | \$ 5,115.7 |
| Total Issues | | 117 | 152 | 150 | 153 | 150 | 184 |

Graph 7.3.6 - 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.

Chart 7.3.7 - Bond draws processed (\$ amounts in millions)

| | Fiscal Year | | | | | | |
|---|-------------|----------|----------|----------|----------|----------|----------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Capital Improvement Bond Draws and Refunds Amount | \$ 3,727 | \$ 2,660 | \$ 2,258 | \$ 2,790 | \$ 1,383 | \$ 1,451 | \$ 2,990 |
| | \$ 696.2 | \$ 781.7 | \$ 386.9 | \$ 505.0 | \$ 500.9 | \$ 385.2 | \$ 458.6 |

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.

Chart 7.3.8 - Housing Authority and Education Assistance Authority daily transactions

| | Fiscal Year | | | | | | |
|---|-------------|---------|---------|---------|---------|---------|---------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
| Housing Authority and Education Assistance Authority Daily Transactions | 2,407 | 1,640 | 1,948 | 2,127 | 2,234 | 2,116 | 2,632 |

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

- 6.1. The agency assisted the Department of Transportation in the analysis of a request for proposals for financial advisory services, and provided assistance to the University of South Carolina in the selection and integration of a lead underwriter for its revenue indebtedness. The Office also approved more than twenty requests for qualification of firms seeking to provide financial services to the state in various capacities.
- 6.2. 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.
- 6.3. The Office recommended that the Tobacco Settlement Revenue Management Authority affect a plan to refinance its Series 2001 bonds. The refinancing transaction was completed on June 26, 2008, and resulted in the reduction of more than \$510 million of the Authority's bonds outstanding. Additionally, the plan resulted in economic benefit in present day dollars of approximately \$235.7 million; a reduction in the bond interest rate to 5%; a reduction in the term of the bonds by about seven years; and restructuring of the bond covenants to promote flexibility in dealing with the tobacco manufacturers over disputed payments.
7. Provide information to credit rating agencies on a timely basis.
 - 7.1. The State Treasurer maintains frequent contact with the rating agencies and responds to all requests for information on a timely basis. 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.
9. Provide other information and analyses as requested.
 - 9.1. During the fiscal year, the agency responded to four 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.

7.4 - Unclaimed Property Program

Program Cost:

| | <u>2003-04</u> | | <u>2004-05</u> | | <u>2005-06</u> | | <u>2006-07</u> | | <u>2007-08</u> |
|---------------------|----------------|---|----------------|----|----------------|----|----------------|----|----------------|
| State Funds | | | | | | | | | |
| Other Funds | \$ 2,426,498 | * | \$ 815,617 | \$ | 583,364 | \$ | 567,806 | \$ | 757,426 |
| FTE's | 6.00 | | 6.00 | | 7.75 | | 9.75 | | 10.45 |
| Temporary Employees | 1.00 | | 1.00 | | 1.00 | | 0 | | 4 |

* 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. Program was promoted through numerous speaking engagements at which lists of owners were distributed and through staffing on-air phone banks to which potential owners could locate their funds.
- 1.3. Each year, the Program runs 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.

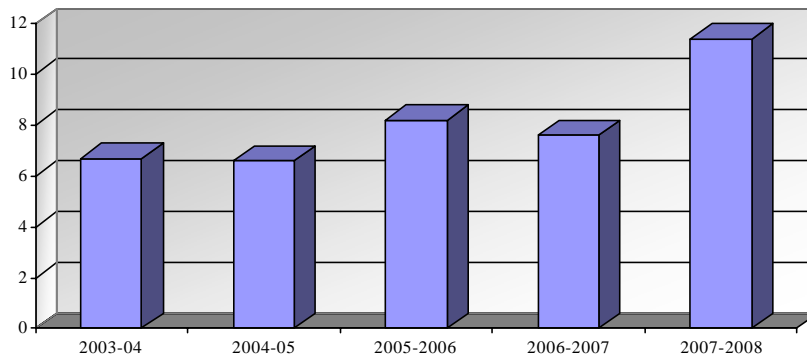
- 2.1. In order to reduce costs and improve the search function, the Program's property search link was moved to www.missingmoney.com; an unclaimed property search site sponsored by the National Association of Unclaimed Property Administrators. Using www.missingmoney.com is free to participating states and provides the Program with the ability to update the records on the site weekly and download all claim inquiries directly into the Program's unclaimed property software, thus eliminating the need to manually input the claims information. During FY08, 3,576,758 searches were performed, with 30,835 claims being generated from the website. The search site provides potential owners with a way to locate their funds 24 hours a day seven days a week and allows them to print their own claim form. The site also increases Program efficiency by substantially reducing the number of research requests that would otherwise have

to be performed by staff and 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 \$11.4 million paid in claims in FY08, \$1.7 million were 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 FY08, DOR transferred 5,749 unclaimed tax refund checks worth \$1,714,718 to the Program. Of that amount, \$840,632.37 (2056 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 FY08, 89 unclaimed child support payments, valued at \$20,626.47, were paid to the rightful owners.

Figure 7.4.1 - 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.

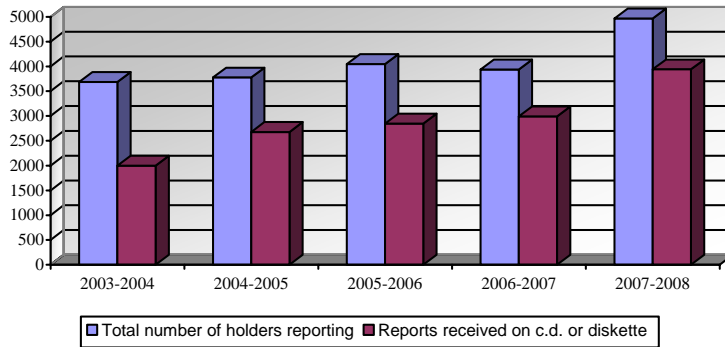
- 4.1. Letters were sent to all holders in the Program’s database, reporting and non-reporting holders, reminding them of their reporting obligations and offering staff assistance. Additionally, letters were sent to out of state companies reminding them that they are required to report property owing to South Carolina citizens to this state, rather than to their home state.
- 4.2. As a result of legislation allowing the South Carolina Department of Revenue to share information on businesses filing employment tax in this state, letters were sent to companies that have not been filing unclaimed property reports advising them of their obligation to do so. This effort resulted in 328 companies voluntarily coming into compliance, reporting a total of \$781,974.90.
- 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 2,992 to 3942. 79% of holders reporting in FY087 reported electronically compared to 75% a year ago.

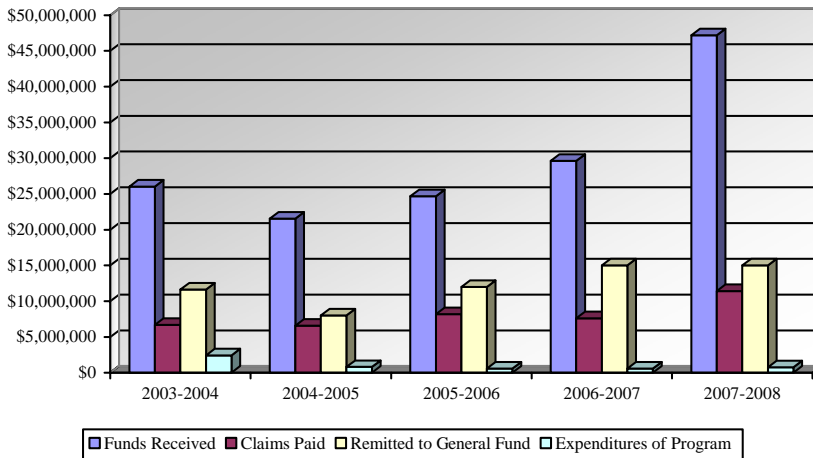
5.2. Electronic reporting further reduces the percentage of reports that have to be manually keyed; thereby decreasing the staff hours needed to key the reports, while increasing the accuracy of the newly-added account information.

Figure 7.4.2 - 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 7.4.3 - Comparison of sources and uses of funds



Note: In August 2007, 284,192 shares of MetLife stock were sold for \$17,341,915.01. The shares were included in the one-time demutualization report received in 2003.

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 \$12million to the General Fund. An additional \$15 million of these funds have been appropriated in the FY09 budget.

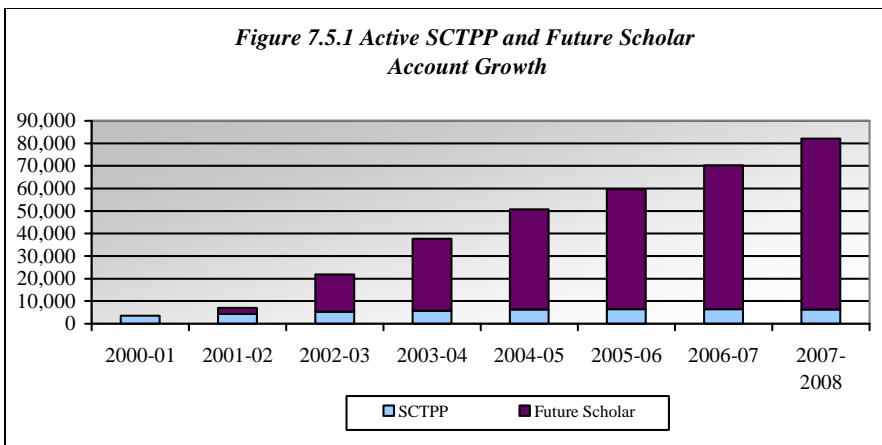
7.5 - College Savings Plans:

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

Program Cost:

| | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-2008</u> |
|-------------|----------------|----------------|----------------|----------------|------------------|
| State Funds | | | | | |
| Other Funds | \$ 481,898 | \$ 482,394 | \$ 501,653 | \$ 415,101 | \$ 398,342 |
| FTE's | 2.30 | 2.30 | 2.20 | 2.20 | 2.60 |

- 1.1. What are your key performance levels and trends for your key measures of mission accomplishment/product and service performance that are important to your customers?



Future Scholar Program

- Future Scholar accounts have increased steadily since inception in 2002 In spite of a soft market and economy testifying to the popularity of the program.
- Active Future Scholar accounts increased by 18.6% from 63,907 to 75,763, with the ratio of participation in Future Scholar by South Carolina residents increasing from 55% to 57% of total accounts. (43,202 of the 75,763 Future Scholar accounts are owned by South Carolina residents.)
- Initiated state wide media campaign utilizing various methods of promotion including print, web based, radio, outdoor advertising, direct mail, community events, and television designed to reach South Carolinians of ranging income levels. Future Scholar promotion centered around two state wide marketing campaigns: “Give the Gift of Education” in November/December 2007 and “Tax Time” in March/April 2008

- 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. Grass roots and television campaigns have clearly improved visibility of the program.
- 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
- Future Scholar's direct plan outreach resulted in an increase of 14% in Q1 for new Direct Plan accounts opened over the same period in the previous year.
- Maintained dealer agreements (to open Future Scholar accounts) with 220 brokerage firms (up from 170 last year), allowing more financial advisors the ability to discuss 529 college savings advantages with clients, including tax savings provided by the State

Tuition Prepayment Plan

- The number of active SCTPP accounts decreased by 1.14% to 6,315 (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 6.72% to \$138 million due to additional contract payments

1.2. What are your performance levels and trends for your key measure on customer satisfaction and dissatisfaction?

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

Future Scholar

- Added increased functionality on Future Scholar website, which include the ability to complete purchases, withdrawals and other maintenance functions over the internet. It is now easier than ever for account holders to conduct business online related to their accounts.
- Partnership and account linkage between Upromise Rewards and Future Scholar launched in February 2008. As of fiscal year end, over 500 Future Scholar accounts have linked with Upromise accounts. (Families purchase items from participating brands and companies and a percentage of the cost is put into an Upromise account to use for higher education costs. Future Scholar account owners can link their Future Scholar accounts to their Upromise accounts so their accumulated Upromise money can be transferred to their Future Scholar account.)

Tuition Prepayment Program

- 38% of the SCTPP account holders view their account information on line. This is up 5.575% from June 2007.

- SCTPP has added an up-to-date “Using My SCTPP Benefits” section on the website. This section will explain in detail, step by step on how to go about using your contract benefits for the first time.
- A “Forms” section was added to the SCTPP website. These forms make it easier for the account holders to request a cancellation, a scholarship refund or if they just need to change the beneficiary, address or add a social security number

1.2.2 Encourage and increase participation in automatic draft contribution options

Future Scholar

- 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 educates parents on the rising cost of a college education and the need for increased systematic investments.
- There was a slight reduction in the percentage of Future Scholar accounts with systematic contributions, using automatic bank draft or payroll deduction. 36% of accounts are signed up for this feature (Down from 37% last year). Given the overall weakness in the economy, as well as increased volatility in the stock market, this slight decrease is not surprising.

Tuition Prepayment Program

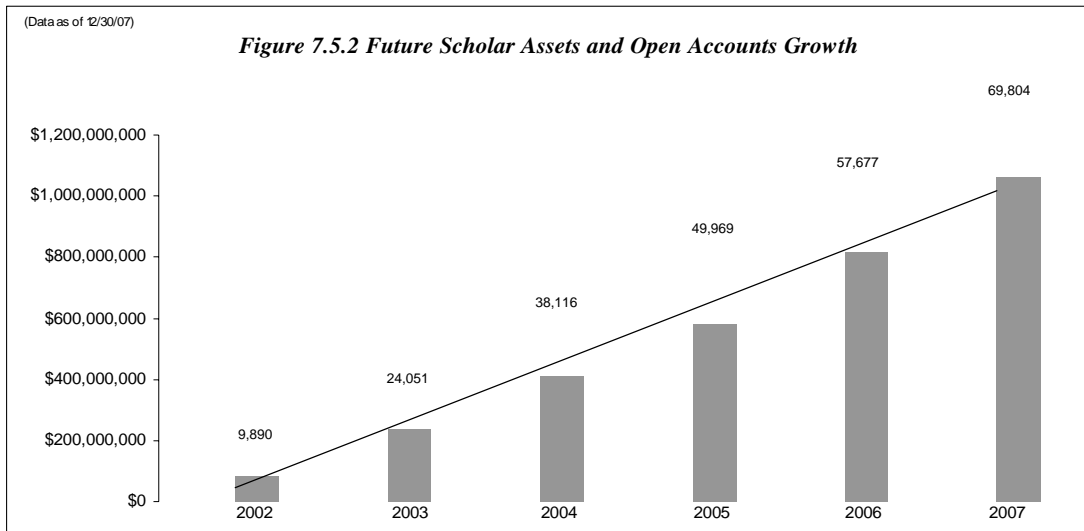
- STO maintained the percentage of SCTPP contract holders making monthly payments by automatic draft at 40.3% as part of a continuing effort to reduce bank service charges and assure payments are made in accordance with the contracts.

1.2.3 Maintained high rankings for Future Scholar in nationally recognized 529 Plan rating websites. (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

1.3. What are your performance levels for your key measures on financial performance, including measures of cost containment, as appropriate?

1.3.1 Increase the amount of Future Scholar investment assets



- Future Scholar accounts' market value rose 9% to \$1,064,208,024.
- Future Scholar assets have increased steadily since inception.
- Future Scholar assets increased by \$246MM in 2007 or 30% from the year before (Financial Research Corporation)
- In 2007, 529 assets (in 91 plans) increased by \$21.2 billion
- Since inception, Future Scholar Assets Under Management have grown at an annualized rate of 75% (Financial Research Corporation)

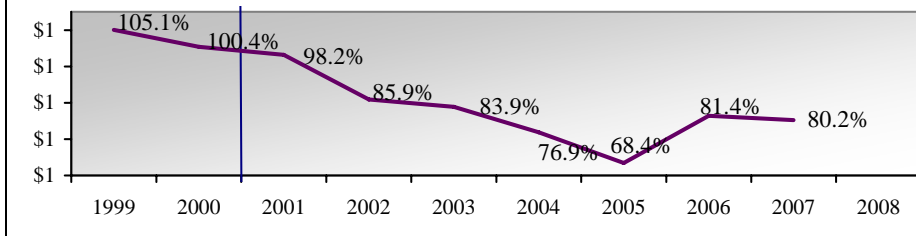
1.3.2 Maintained low fees for Future Scholar Direct Plan (only offered to SC residents)

- 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 underlying fund expenses ranging from 0.10% to 0.38%. (Source: Proprietary information reported to us by our outside administrator)

1.3.3 Analyze the cash flow expectations for SCTPP and review actuarial assumptions to sustain program soundness

- The STO 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.
- During the year, the SCTPP's investment strategy continued toward 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, 2008, the portfolio was at 53.3% equity (43.4% domestic and 9.9% EAFE funds) and 46.7% fixed income securities

Chart 7.5.3 SCTPP Percent Funded



**Chart 7.5.4
SCTPP Projected v. Actual Tuition Increases Since Inception**

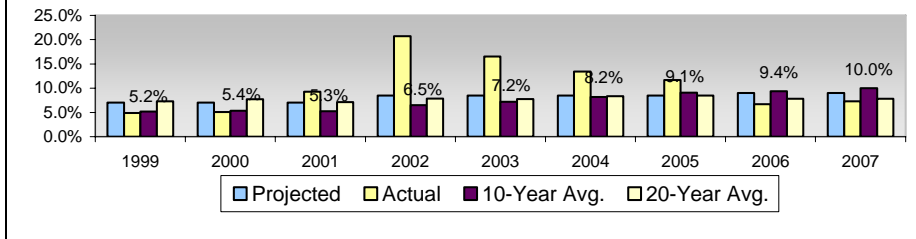
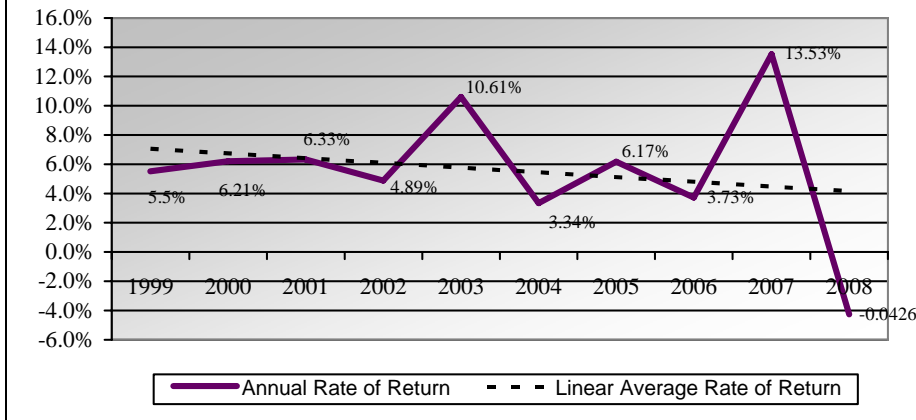


Chart 7.5.5 SCTPP Fund Annual Returns



| Figure 7.5.6 - Factors contributing to the SCTPP actuarial unfunded liability Progression of Surplus | |
|---|----------------|
| Surplus at June 30, 2007 | (\$37,926,148) |
| Projected Change to June 30, 2008 ¹ | (2,749,646) |
| Gain from Legislative Cap on Benefits ² | 19,945,438 |
| Loss due to Unfavorable Investment Experience | (15,187,796) |
| Change due to Additional Contract Sales | N/A |
| Changes due to Expense Change | (320,081) |
| All Other Experience Items ³ | (1,399,371) |
| Surplus at June 30, 2008 | (\$37,637,604) |

1.4. What are your performance levels and trends for your key measures of workforce engagement, workforce satisfaction, the development of your workforce, including leaders, workforce retention, and workforce climate including workplace health, safety, and security?

- STO is committed to training employees on 529 plans, best practices, and industry standards.
- Yearly national 529 conferences are held by Savingforcollege.com and the College Savings Plans Network to which STO sends a representative in order to maintain a workforce that is up to date and trained on best practices and industry standards relating to state administered 529 plans.
- STO maintains regular communication with Columbia Management, the program manager to ensure industry standards and best practices are upheld and duties of the STO and obligation to the citizens of South Carolina and Future Scholar account owners are adequately met.

1.5. What are your performance levels and trends for the key measures of organizational effectiveness/operational efficiency, and work system performance?

- 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.
- The Future Scholar Program Descriptions continue to be in line with the College Savings Plan Network (CSPN) national standards and include all MSRB required disclosure.
- STO meets regularly with members of the program manger's senior leadership team to ensure all aspects of the plan are performing as designed.

¹ 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. If our assumptions are exactly realized for the year 2008/09, then the deficit will change from (\$37,317,523) to (\$40,023,043) due to the change in the time value of money adjusted.

² In 2008 the Legislature implemented a statutory limit of 7% per annum on increase to benefits payable at public colleges and universities in South Carolina.

³ Other experience items consist principally of differences between actual and projected contract cancellations.

- STO regularly reviews plan performance, expenses and marketing to ensure the highest standard of plan quality.

1.6. What are your performance levels and trends for the key measures of regulatory/legal compliance and community support?

- STO participates in the College Savings Plans Network - a national network, an affiliate to the National Association of State Treasurers, serves as a network for information among state-administered college savings programs. CSPN monitors federal activities and promotes legislation that will positively affect Section 529 plans.
- STO participates in monthly and bi-monthly CSPN conference calls to stay up to date with state and federal happenings regarding 529 industry standards, marketing, and customer service.
- CSPN allows state program managers to openly discuss, compare, and share ideas about 529 plan issues.

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 |