



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

February 8, 2024

VIA ELECTRONIC MAIL & HAND DELIVERY

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

Re: 2023 STO Closing and Reporting File and CGO assistance

Dear Chairman Grooms:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

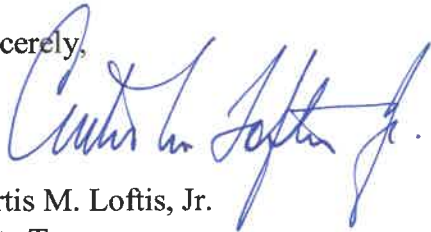
In summary, the STO complied with Proviso 98.14 by providing information requested by the CGO for the Cash and Investment Closing file, to the best of our ability, and continues to research SCEIS fund 30350993.

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

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

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

Sincerely,



Curtis M. Loftis, Jr.
State Treasurer

Enclosures

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



THE HONORABLE CURTIS M. LOFTIS, JR.

State Treasurer

September 8, 2023

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

SENT VIA HAND DELIVERY AND OFFICIAL ELECTRONIC MAIL.

Dear General Gaines:

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

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

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

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

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

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

Brian J. Gaines, Comptroller General
September 8, 2023

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

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

Sincerely,



Clarissa T. Adams
Chief of Staff

CTA/cl
Enclosures:

Appendix to Letter to CGO 9/8/2023

APPENDIX


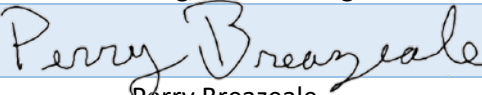
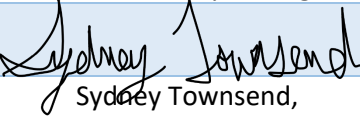
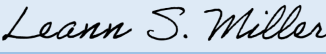
The State Treasurer’s Office (STO) has carefully reviewed the instructions and the Closing File issued by the CGO and provided responses as shown in this Appendix. The signature(s) of STO personnel on the accompanying letter represent the assertions of the STO that the information contained in each response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

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

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

APPENDIX

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

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